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Creative Financing & Strategies for Mixed-Income Transit Oriented Development in Dallas, Texas

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Creative Financing & Strategies for Mixed-Income Transit Oriented Development in Dallas, Texas

by

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Report

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Dedication

For my adopted hometown, Dallas, Texas where I plan to build my career and family – and for all those who love this city. Dallas is Dallas, and Dallas is home.

Acknowledgements

Many thanks to my friends and family who have supported me academically, professionally, emotionally, and guided me in living out a great story and pursuing a meaningful life. I am thankful to the City of Dallas and Dallas Area Rapid Transit, whose staff provided data promptly, engaged in thoughtful and thorough discussions, and addressed my inquiries completely. I would like to thank my faculty committee, Dr. Barbara Brown Wilson and Dr. Terry Kahn for their guidance and support through this research, report, and my overall time as a graduate planning student at UT.

I must thank my parents for their relentless support in my passions and the subject I have come to love as a profession. Special thanks go to my father for teaching me most of what I know about real estate development, those essentials that only come from decades of practice and experience. And finally, to my Father in heaven, who blesses me with grace and strength daily – it is in Him I find gladness and joy embracing the opportunity of improving my community and my city.

Abstract

Creative Financing & Strategies for Mixed-Income Transit Oriented Development in Dallas, Texas

Lauren Neda Partovi, M.S.C.R.P.

The University of Texas at Austin, 2013

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This study evaluates the current environment for mixed-income transit oriented development along DART rail within the city limits of Dallas. A close look at income and racial disparity is used as the foundation for advocating for a more proactive and aggressive approach to the development of affordable units proximate to affordable transportation choices. Assembling financing for mixed-income TOD projects is especially challenging, and multiple layers of federal, state, and city funding mechanisms are required for achieving the capital requirements of the development. Both typical affordable housing funding methods and new and nontraditional funding methods for multifamily housing were researched and evaluated with the intention to propose possibilities for catalyzing development in DART station areas within the City of Dallas that have, to this point, experienced underdevelopment.

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Chapter One: Introduction

Purpose of the Study

Transit Oriented Development (TOD) provides an excellent opportunity for affordable housing because of its colocation with affordable transportation choices. However, often-inflated land values surrounding light rail stations make financing TOD projects with an affordable unit mix problematic. Funding strategies used in transit-rich cities across the United States have addressed this shortfall in project funding and employed methods that are transferable and appropriate for affordable TOD in other cities. Some of these models present valuable strategies that could be applied in advancing the City of Dallas's priority for providing affordable housing at specific Dallas Area Rapid Transit (DART) sites.

This report will address funding models required for mixed-income transit oriented development and new opportunities for implementing such projects in Dallas, Texas. The intention of this analysis is to evaluate the current political and financial climate for mixed-income and affordable multifamily transit-oriented development in Dallas. This is accomplished by mapping demographic data that examines housing segregation and income disparity, considering both traditional and new funding methods to achieve projects with an affordability component, and suggesting where some of those new developments might locate.

The TOD conversation has become a more serious one within the development profession in Dallas as increasing transportation costs and congestion pose challenges for the city's long-term growth. An established priority for DART is development at rail stops that catalyzes growth of the communities surrounding stations (DART, 2008, p. 4). The goal is to encourage nodes of activity and subsequent increased DART use and ridership, and ultimately a more sustainable, less auto-congested Dallas (DART, 2008, p. 4). Developers now have the opportunity to capitalize on TOD and provide much-needed multifamily rental housing for the workforce who will accompany this significant growth.

Proximity to affordable transit helps frame the land surrounding rail stops as blue ribbon opportunities for affordable, workforce multifamily housing development. However, this access to regionally connected mass-transit affects property values surrounding stations and often makes an affordability component in TOD cost prohibitive. Public-private partnerships (PPPs) with transit agencies, cities, and landowners, in which a portion of the development is subsidized, help mixed-income and affordable projects get built – PPPs also help TOD in general get built, given the increased complexities of developing higher density urban projects that mix uses and often require structured parking. It is crucial to identify the real need for, and sources of, gap financing that will enable developers in Dallas to justify building affordable projects they otherwise would not.

Cities across the United States have developed different methods of developing affordable TOD housing through policy measures such as inclusionary zoning, incentive-based zoning, and tax-increment financing. Alternative methods include land banking, PPPs with the local transit agency or redevelopment agency as landholder, and private sector-lead contributory funds. TOD in Dallas is behind, and the regulatory environment in Texas limits the capacity of the public sector to set affordable housing development requirements (J. Wierzenski, personal communication, July 18, 2013). Dallas didn't grow up around an established rail system in the same way cities like New York, Philadelphia, and Boston did, but the idea of specific development around stations is the revival of an old idea in the U.S. dating back to the early 20th century and the creation of those early rail lines (Dunphy, 2004, p. 3). For Dallas to be a vibrant, competitive 21st century city capable of recruiting and developing a world-class workforce, connectivity using mass transit and TOD is essential. Subsidized funds are needed to encourage TOD and ensure projects get built in challenging neighborhoods where the market cannot currently support dense, market-rate TOD. Identifying methods to fill the gap that affordability creates is a pressing issue for those concerned with sustainable transportation and surrounding land uses, both in Dallas and in transit-rich cities across the United States.

Research Goals

This study will look at the climate for TOD, new potential funding mechanisms, and highlight development opportunity areas based on the recommendations from the City and DART, as well as mapping analyses that evaluate Dallas demographics and the metrics that impact the funding models studied. The goal of this document is to evaluate the challenges facing mixed-income TOD in Dallas and look to case studies and financing precedent from other cities that will serve Dallas stakeholders in developing mixed-income housing projects along DART rail lines. This research intends to recommend financing strategies and priority areas for the progression of mixed-income, mixed-use TOD in Dallas, TX.

The report will include maps produced in GIS that show a snapshot of Dallas demographics, existing Low Income Housing Tax Credit (LIHTC) projects, priority areas as they relate to the State of Texas qualified allocation plan (QAP), and a map of existing and planned bicycle infrastructure and trail systems that would impact access to affordable, sustainable transit. This report will also include an evaluation of outcomes from a planning effort lead by Dallas looking at five DART station small area plans in order to select a potential development site for further evaluation. The goal in using GIS maps is to provide context and suggest priority development areas within the context of Dallas as a whole.

This analysis will be accomplished through completing the following:

1. Analyze demographic and affordable housing trends in Dallas, Texas.
2. Review financing strategies for TOD in other U.S. cities.
3. Gain a solid understanding of the current policies and funding mechanisms that currently support mixed-income TOD in Dallas and could in the future.
4. Identify opportunities to make more funds available for mixed-income TOD in Dallas.
5. Select specific financing strategies and suggest priority areas for development.

Why Dallas?

DART currently operates eighty five miles of light rail with sixty one stations, and by the end of 2014, the system will connect DFW Airport to the Dallas metroplex by rail (DART, 2013). The strength of this transit system is new, and its integration with the city, especially on the pedestrian level, often leaves something to be desired. Much of Dallas's growth occurred after the use of automobiles became widespread, so in many areas the design of the buildings and infrastructure surrounding rail stations is not pedestrian and transit friendly (Dunphy, 2007, p. 4). Raised platforms that remove the rail from the street at several stations disconnect DART from the pedestrian experience and will require site-specific, tactical urban design solutions to create synergistic TOD environments. The following photograph from the Park Lane Station, part of the Vickery Meadow Station Area Plan evaluated in Chapter Four of this research, shows the disconnect between the pedestrian and transit realms.

Figure 1.1: Multi-Level Park Lane Station

Strategies to mitigate that disconnect must be part of urban design solutions applied in Dallas TOD in order to foster a realm of activity around multi-level stations.

To date, DART rail stations have attracted more than $7 billion in existing, planned, and projected transit-oriented development along the rail line in several DART-serving cities, including Plano, Richardson, Garland, and Carrollton (DART, 2013). Within the Dallas city limits, this includes mixed-use communities at Mockingbird, Cedars, and Cityplace/Uptown stations (see current DART Rail System Map in Appendix A).

With a population of more than 1.1 million, Dallas is the third-largest city in Texas and the ninth largest city in the United States (The Connected City, 2013, p. 4). The urban core of Dallas is home to more than 175,000 people and downtown is experiencing a re-surging population with new high-rise multifamily projects being delivered to the market and a daytime workforce of 135,000 (The Connected City, 2013, p. 4). Downtown is also home to a booming Arts District, as well as the new 5.2-acre urban freeway-deck park, Klyde Warren Park. Uptown, located just to the north of Downtown across I-35 and Klyde Warren, is the hottest multifamily and mixed-use retail market in the entire metroplex. Whole Foods will open the first large grocery store in the core of Uptown in 2015, suggesting the vibrancy of residential life expanding in urban Dallas.

Dallas benefits from one of the healthiest economies in the country, regularly ranking in the top cities for various employment and cost of living lists. The housing market is strong in Dallas and remained steady through the recession, though new-starts were at a relative stand still. The multifamily market is currently flushed with new development now that there is significant positive movement in the market, and projects using a mixed-income model would find great market success if well located with convenient access to transit and jobs. Unfortunately, the affordable housing model in Dallas leans heavily toward the development of single-family housing for low-income residents in low-cost, low-economic opportunity areas. This single-family housing is concentrated in South Dallas and West Dallas, in the most economically challenged segments of the city. Only since South Side Lamar opened adjacent to the Cedars Station south of Downtown in 2002, have development groups in Dallas branched into multifamily TOD with an eye toward providing residents access to jobs.

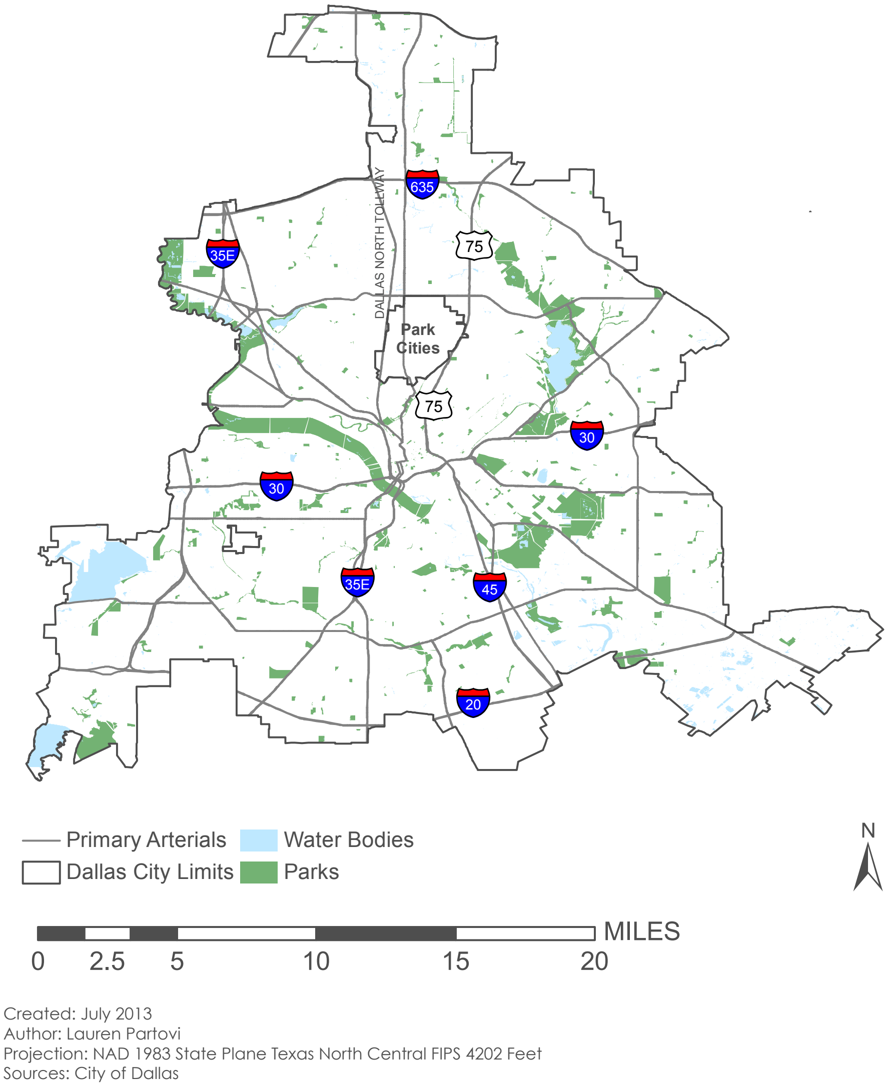
There are a variety of reasons why more mixed-income projects have not seen the light of day, but from the development side, the expertise and tenacity required to pursue the necessary funding mechanisms have kept the pool very small and projects few and far between. There are no existing policy controls that require a certain percentage of affordable housing units to be developed in any new TOD project, unless the project is using City of Dallas Tax Increment Finance (TIF) funds. The limitations of Texas policy prohibit these types of exactions, but when projects are publicly subsidized, affordability can be a requirement – and this report advocates, should be a requirement.

Crucial to the economic success of Dallas is the quality of the workforce and vibrancy of its neighborhoods. For the past twenty-five years, the quality of Dallas public schools has declined and encouraged white flight to the suburbs, where the promise of a better educational system for their children made sense for white collar workers. Access to quality education within Dallas Independent School District (DISD), which spans across the majority of the City of Dallas, is essential for the long-term competitiveness of Dallas both in terms of its viability against other Texas cities and compared to major metropolitan cities across the United States.

Research Context

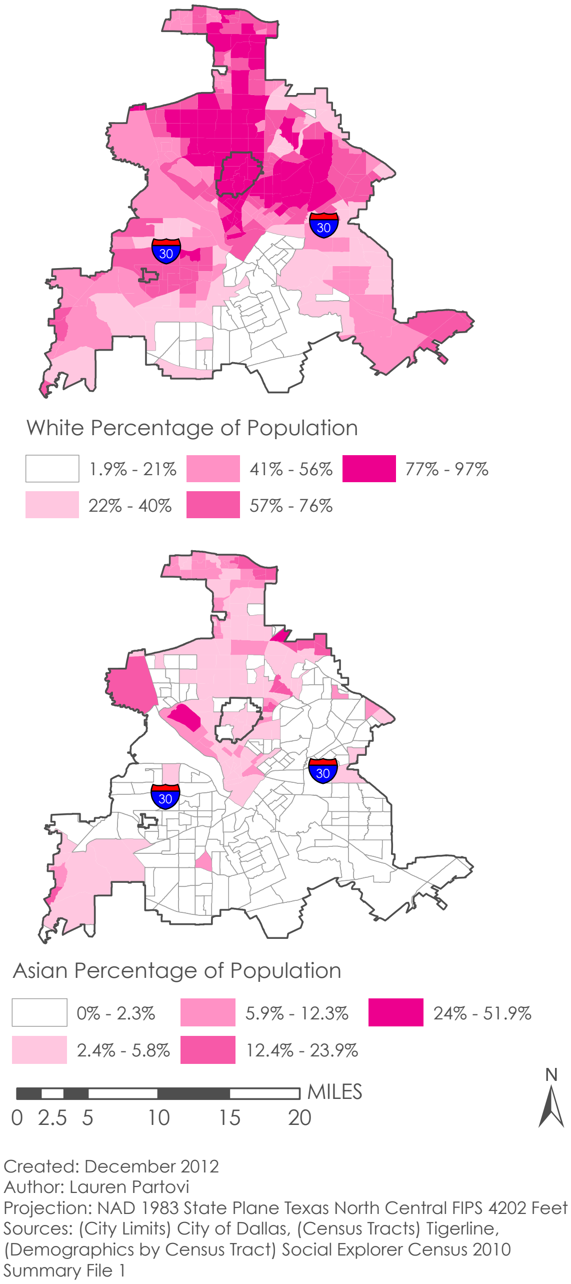
The following maps and corresponding analysis are meant to draw a picture of the City of Dallas, first by identifying the major roadways that divide the city and identify the unincorporated Park Cities area in Figure 1.2: Dallas, Texas in Context, and then by illustrating the demographic differences that characterize segments of the city. It is important to note the real barrier that I-30 creates between North/Central Dallas and South Dallas, evident in the Figure 1.2.

Figure 1.2: Dallas, Texas in Context



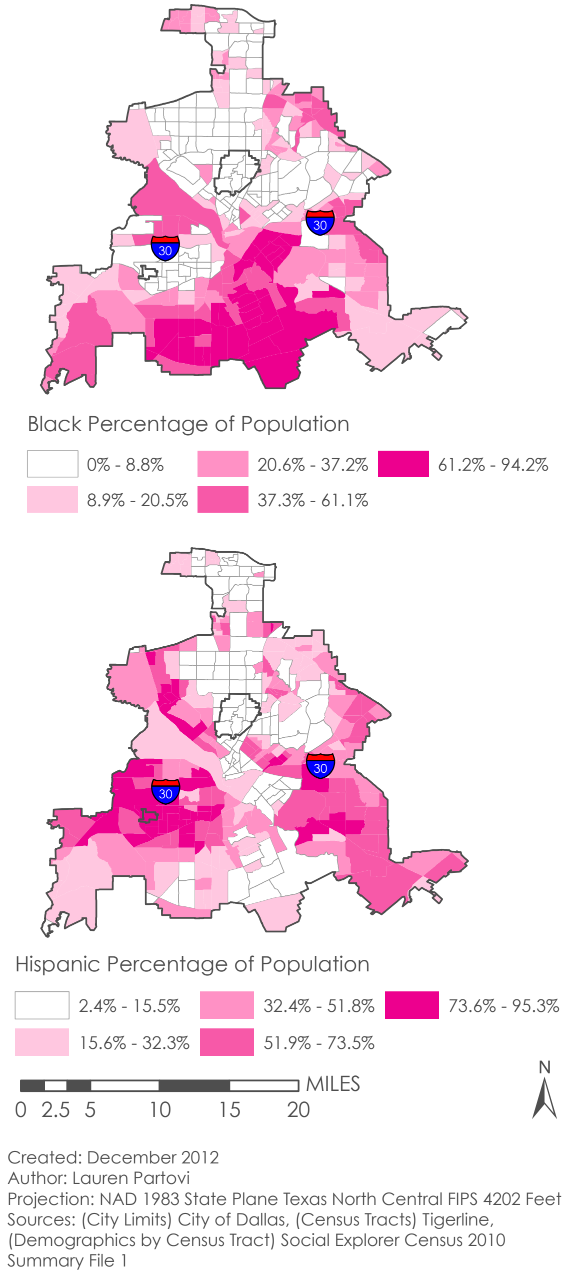
North Dallas is home to one the wealthiest neighborhoods in the country, boasting some of the nation's best public schools and highest concentration of income in an area that includes the towns of Highland Park and University Park, known as Park Cities. The following Figure 1.3 maps the concentration of white and Asian residents in Dallas, with the Park Cities area reflecting the highest concentration of whites in the entire city.

Figure 1.3: Racial Distributions by Census Tract 2010 (White & Asian)



Residents of South Dallas, below I-30, are twice as likely as their Dallas peers to have less than a high school education and are only 25% as likely to hold a bachelor's degree. In 2004, less than 43% of residents in South Dallas had health insurance compared with 75% in Dallas County. In 2003, the infant mortality rate in South Dallas was over twice as high as Dallas County, and death from HIV/AIDS and homicide was six times higher. 2010 median family income of $23,872 in South Dallas was less than half of the $61,223 recorded for the entire city. (TREC, 2010, p. 13)

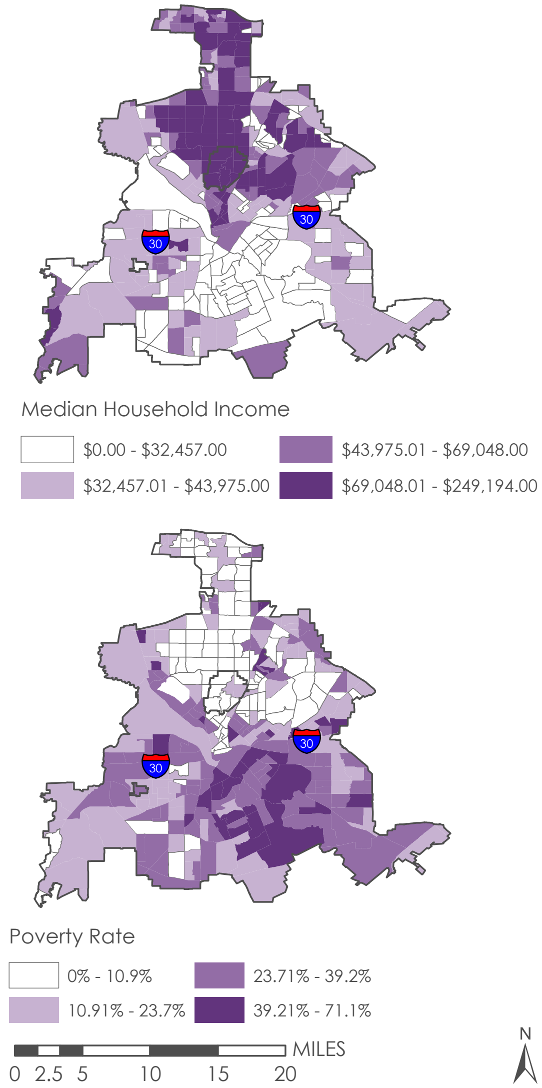
Figure 1.4: Racial Distributions by Census Tract 2010 (Black & Hispanic)



According to a report from Teach for America, 90% of the DISD student population receives free or reduced lunch and just 14% of students are prepared for college. Surrounded by DISD, the Park Cities area provides alarming contrast, evidenced in the map in Figure 1.5: Income & Poverty by Census Tract 2010. Highland Park and University Park feed into schools where none of the 6,000 students qualify for free or reduced lunch and 98% of students continue on to a four-year university. Targeted LIHTC investment and public investment in providing affordable units proximate to well-performing schools, as advocated in the 2013 LIHTC State of Texas QAP, might begin to address the cycle of educational inequality for low-income students in Dallas. (Teach for America, 2013)

These maps show the economic disparity and racial segregation evident between the northern and southern spheres of Dallas. South Dallas, as members of the community know it, is home to four out of five locations evaluated in the DART station small area planning effort reviewed in Chapter Four of this report. Each of those plans presents significant challenges for new development in a larger market where employment is nearly non-existent. In central Dallas, north of I-30 and in the Park Cities, the proposition of introducing mixed-income multifamily housing in higher opportunity areas is daunting because of resistance from residents and general opposition to welcoming lower-income neighbors into established communities.

Figure 1.5: Income & Poverty by Census Tract 2010



Created: December 2012
Author: Lauren Partovi
Projection: NAD 1983 State Plane Texas North Central FIPS 4202 Feet
Sources: (City Limits) City of Dallas, (Census Tracts) Tigerline, (Income and Poverty by Census Tract ACS 2006-10) Texas Department of Housing and Commuinty Affairs

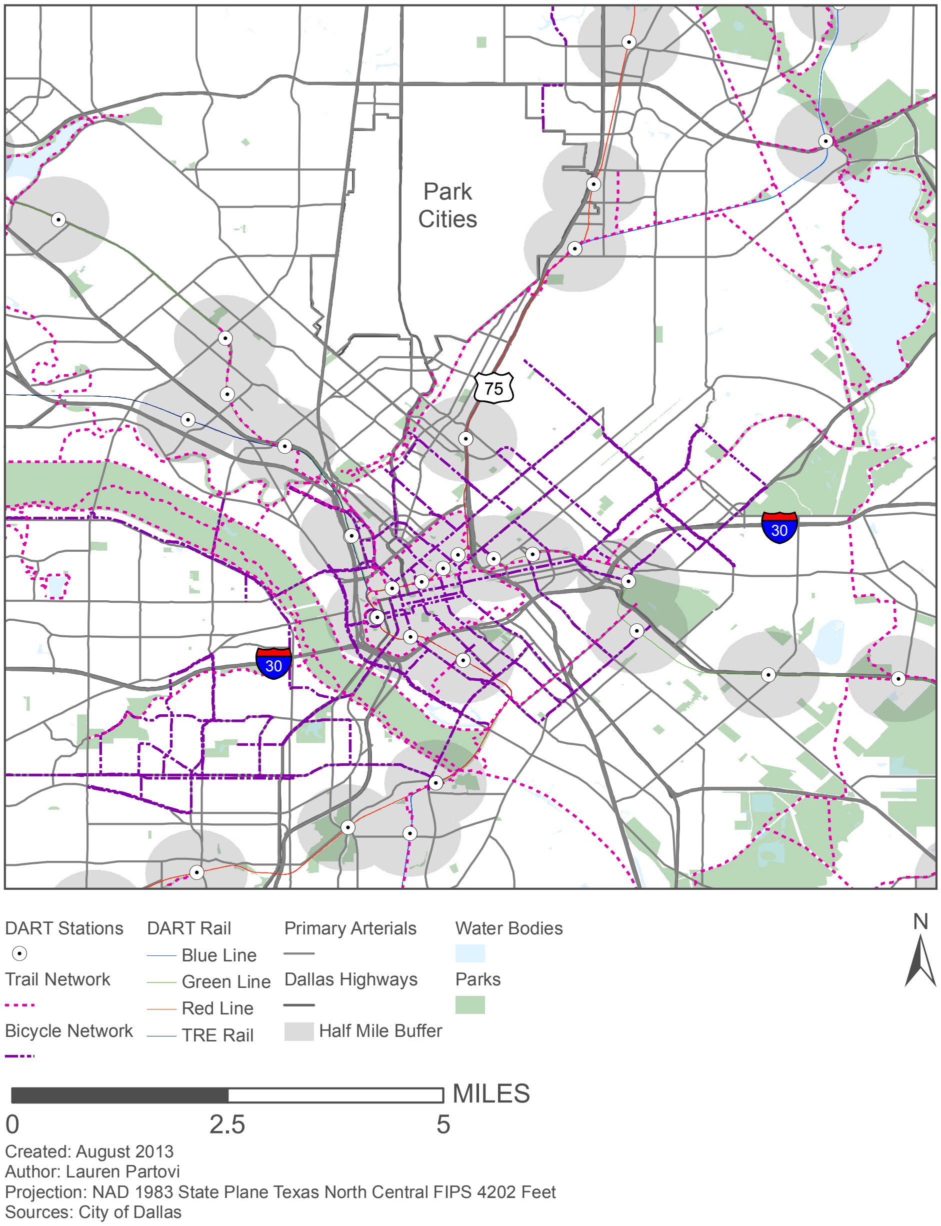
Chapter Two: Mixed-Income & Transit Oriented Development

Defining TOD

The definition of Transit Oriented Development is that development which occurs within a half-mile of a light rail station in a suburban setting and within a quarter mile of a station in an urban setting (Dunphy, 2007, p. 33). The half-mile zone around a transit stop is considered the area that is easily walkable from the station. Generally, that area represents a five to ten minute walk, a comfortable distance for people to avoid auto use in accessing their home, office, shopping, or public and civic spaces. Dallas does not currently have a Bus Rapid Transit (BRT) system, and for the purpose of this research, special consideration for TOD potential will not be given to traditionally operated bus routes. Bus routes do not give developers the sense of permanence and confidence that rail lines provide, and therefore do not catalyze developments along them in the same way rail does. As a result, it is difficult to develop a cogent economic argument for providing TOD subsidy along bus routes. BRT is mentioned because those services provide fewer routes along major arteries with more limited stops and have been shown to spur development in cities like Los Angeles and Pittsburgh (Dunphy, 2007, p. 35).

The "four Ds" of TODs are distance, density, diversity, and design, which, when properly combined, can create better communities (Dunphy, 2007, p. 4-5). Developments around transit stations provide mixed-use environments where people have the opportunity to live, work, and fulfill some of their daily needs through retail uses. The design of these developments, because of their access to transit, is pedestrian-oriented and encourages users to walk, use a bicycle, or other non-vehicular modes of transit. Designing these developments with conscious connections to supporting infrastructure further provides access to affordable transportation, and Dallas has a growing trail network and bicycle plan to facilitate multi-modal use. The following map in Figure 2.1 depicts the bike and trail network for the City of Dallas.

Figure 2.1: Dallas Bicycle and Trail Networks, 2013



A thorough bike and trail network that addresses bicycle use in strategic parts of the city, including TOD areas and primary employment centers, is a key piece in alleviating congestion and encouraging alternate transportation modes. TOD and its incorporation of bike-friendly infrastructure can do a great deal in encouraging auto independence. Making TODs true destinations and nodes of activity, and connecting those centers to a strong bicycle and trail network, will help give diverse life to stations and urban Dallas.

Given the priority for creating inviting, walkable areas, TOD buildings mix uses and are typically multi-story. Three stories or taller allows for the moderate and higher density required to support both the desired active environment on the street level around the transit stop and the cost of development at the site. Diversity is an important fourth element to the principles of quality TOD both in terms of uses and program at the site as well as visitors and users, and it is with this understanding that advocacy for mixed-income environments and methods of creative gap financing for those projects is pursued.

Transit-oriented development can provide enormous benefit to the rail line itself, creating active centers of employment, recreation, and commerce that can encourage ridership along the line and produce increased revenues to support the system. Reductions in greenhouse gas emissions and air pollution as a result of increased mass transit use can mean improved air quality and a higher overall quality of life in a city. The added convenience of using automated transit gives users the opportunity to avoid and effectively reduce auto congestion, while making use of their newfound downtime for work or catching up with the news and becoming a more informed resident.

The locational advantage of land around rail means a high cost for acquiring the land and represents a higher percentage of the total project budget required to build a TOD. Developing around transit in many of the major metropolitan areas across the United States, where transit usage is higher and the development patterns are more dense, is an easier sell than development along often-suburban Dallas rail. The rate of investment in Dallas TOD has lagged compared to similarly robust light rail transit networks across the country because of these ridership concerns (J. Wierzenski, personal communication, July 18, 2013). Still leading up to the time of this research, DART ridership alone is not enough of a sell for traditional capital like banks or institutional funds to invest or lend to a TOD without some sort of third-party investment that lessens the risk profile. Projects able to access that traditional capital pull from several other locational advantages, which often include stations with close proximity to major freeway ramps and high employment density. Creation of place through good design and a strong surrounding neighborhood are essential to access traditional development financing. Unfortunately, this need to locate projects both near transit and in existing strong socioeconomic environments has limited TOD along all DART lines within the city limits of Dallas.

Dallas TOD Demand

Transit works best when serving higher-density populations close to the urban core who rely on affordable transit, in communities where residents are not auto-dependent. It works worst, unfortunately, when serving low-density, auto-oriented Sunbelt suburbs, like Dallas (Dunphy, 2007, p. 7). In Dallas, the share of commuters using transit is a mere 2%, but in a 2003 study by the organization Reconnecting America, Dallas was named tenth among U.S. cities with the highest potential demand for TOD housing (Dunphy, 2007, p. 8, DART, 2008, p. 6). The study found that by 2030, there could be a TOD housing demand of 270,676 households, or a percentage increase of a staggering 483% from 2000. Post-recession development has been dubbed “a second blooming of TOD” along DART rail lines in Dallas (InMotion, 2012). Land near Cityplace/Uptown Station, adjacent to the highly successful Uptown District and surrounding a new transit trolley turntable, is primed for new mixed-use development when the market reaches full recovery and can support a large-scale urban project with high-rise market-rate rents.

As DART lines have expanded to the suburbs surrounding Dallas, demand for land proximate to DART stations has increased across the metroplex. Fortune 500 office users are recognizing the competitive advantages of locating next to rail stations and making their offices accessible to employees looking for more sustainable and economical transportation options. One such example, just outside of Dallas city limits in Richardson, is the site of a new State Farm corporate campus located at the Bush Turnpike DART Red Line station (Appendix A: Current DART Rail System Map). The mixed-use office complex will consolidate offices for the corporate tenant, creating an energetic and more synergistic campus for the company using almost 1.5 million square feet of office space at the development. The site is currently under construction and slated for a 2015 opening. (Brown 2013)

One hurdle that still faces rail stations within the city limits of Dallas is the stigma of public transportation itself. DART rail lines get used infrequently by suburbanites taking recreational trips to the State Fair of Texas at Fair Park or a special event at American Airlines Center, but daily use is a different story. Transit's reputation for the places it goes and the people it primarily serves is often negative, and DART stations within much of Dallas suffer from this negative perception. Developers, retailers, and households often view locations accessible to transit lines and serving lower-income neighborhoods as undesirable – or on the wrong side of the tracks (Dunphy, 2007, p. 21). TOD in Dallas, like projects at Mockingbird Station and Cityplace/Uptown Station, has to create great pedestrian-oriented places that can function as districts that provide an exciting destination that will lure a new and different demographic of ridership.

A 2007 Urban Land Institute report, *Developing Around Transit*, had the following to say about the "box score" for Dallas's market for TOD:

> Development around transit occurring in suburbs, but not generally in the central city, which is the prime transit market. Developers closely watching the widely praised Mockingbird Station redevelopment in the city of Dallas, which is somewhat of an anomaly in the market. Regional council of governments preaches/teaches transit-oriented development. Suburban governments increasingly welcome prospective transit service for its development potential.
>
> (Dunphy, p. 69)

A 2012 Urban Land Institute and Ernst & Young report, *Infrastructure 2012*, presents the post-recession market shift of people wanting to live closer to work, cultural amenities, and commercial districts (p. 30). Companies in Dallas are starting to relocate back from the fringes because their base of employees prefers a less car-dependent lifestyle and wants proximity to urban culture. “Move-back-in” market forces and demographic trends are pulling together for greater urban activity in Dallas, which has the longest light rail network in the United States. (Urban Land Institute and Ernst & Young, 2012, p. 30)

Affordable Housing Policy

Over the past thirty years, the federal government's withdrawal from direct provision of housing for low-income households in favor of devolution to state and local jurisdictions, has resulted in fragmented and often contradictory housing programs (Silverman, 2011, p. 91). This conflict is perfectly personified in the tension of priorities between the City of Dallas and the State of Texas Department of Housing and Community Affairs. While the City of Dallas is trying to "Grow South" with an initiative brought forth by current mayor Mike Rawlings, the State of Texas prioritizes new affordable housing development in higher income, lower poverty areas. Finding funding for developments in the economically disadvantaged southern sector is therefore especially challenging. As a result of these contradicting housing programs, the goals of improving housing for the poor, increasing opportunity for poor and minority households, and eliminating discrimination in the housing market remains an unfilled priority (Silverman, 2011, p. 91). Funding and policy guidance for affordable housing originates at the federal level, but implementation and siting developments occurs locally. The State of Texas and the City of Dallas bear the responsibility of effectively addressing the housing needs of the city's lower income population. Because municipalities rarely build affordable housing themselves, the responsibility to construct affordable units falls to private and nonprofit developers. In the current policy context, public subsidy is used to privately build affordable housing. The required synergy of these groups to produce successful developments and positive outcomes poses serious challenges.

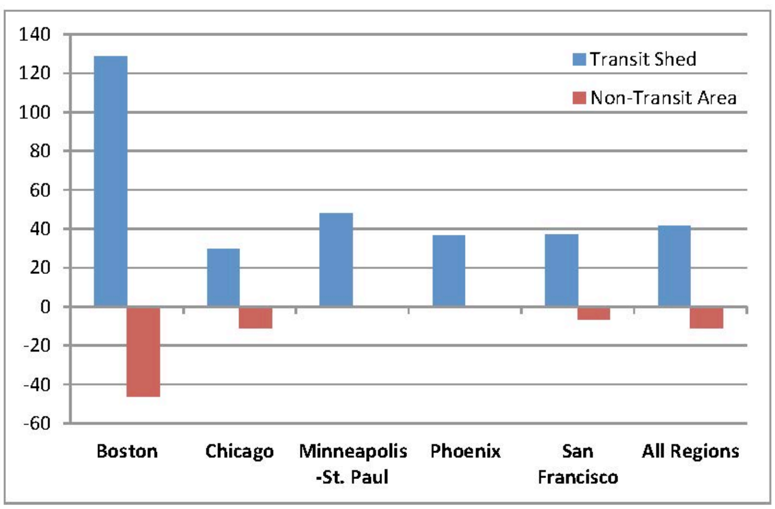
For-profit developers obtain the vast majority of the public and private funding available for housing construction and produce smaller and more expensive units than their nonprofit counterparts, but also locate them in stronger or healthier housing markets (Silverman, 2011, p. 92). Historically, nonprofit agencies or developers target projects in areas with the greatest existing need for affordable housing, while for-profit developers lean toward the stronger markets with a higher income and lower poverty resident profile. The shift in affordable housing provision from the public sector to the private sector places the responsibility for the implementation of housing policy on the private sector, which inherently seeks to maximize its profits, and nonprofit housing agencies, which have limited financial and organizational capacity (Silverman, 2011, p. 93-92). Each of these challenges inhibits the production of enough affordable housing to meet the needs of low and very low-income households (Silverman, 2011, p. 93). Housing policy in the United States currently emphasizes deconcentrating poverty by distributing affordable housing to encourage equity and access to employment, educational, and other opportunities that improve quality of life and outcomes (Silverman, 2011, p. 92). Providing this housing means complicated public-private partnerships and requires the layering of complicated funding mechanisms that require navigating local, state and federal regulatory systems.

Dallas & Affordability

Housing for low-income residents is difficult to brand in a way that it becomes marketable and palatable to the higher opportunity areas where it may produce the best outcomes for residents, and it is also difficult to market to the longtime disadvantaged southern sector of Dallas. In a personal interview, DART Director of Economic Development Jack Wierzenski said there is a long history in Dallas of promises being made to the southern sector that are never fulfilled (July 18, 2013). As a result, officials and board members that represent the area are resistant to any form of new affordable housing in that part of town. Affordable housing, workforce housing, and mixed-income housing are product types met with skepticism. In the current political climate, after decades of funneling low-income housing into historically disadvantaged and impoverished communities of Dallas, the leadership in those areas is a harsh critic for any kind of new affordable housing. The challenge is that, while the City of Dallas and South Dallas itself have the priority of revitalizing blighted communities, the market in South Dallas does not provide a significant employment draw that would allow for the jobs and income necessary for market-rate housing.

Data from the Center for Neighborhood Technology's (CNT) Housing + Transportation Affordability Index shows that households living close to transit have better access to jobs and lower average transportation costs than households across a region as a whole (CNT, 2013). Resiliency of land values near transit through the recession also speaks to the need to look at these areas as prime locations for dense housing projects that mix building uses and unit size to serve a diverse socioeconomic group. The following graph using CNT data in Figure 2.2 shows that land within the light rail transit sheds in Boston, Minneapolis-St. Paul, San Francisco, Phoenix, and Chicago outperformed land across their respective regions.

Figure 2.2: Percent Change in Average Residential Sale Prices Relative to the Region, 2006-2011



(CNT, 2013)

A University of North Texas (UNT) study in 2007 evaluated land value increases proximate to DART rail stations and attributed $4.26 billion in development generated by

TOD around DART projects from 1999 through 2007 (DART, 2008, p. 6). These numbers are hugely significant when considering the concept of value-capture, where funding for transit and its related infrastructure can harness the increase in land value for paying for operating costs associated with rail. When comparing TOD to non-TODs, the UNT study showed that transit-oriented residential development had 39% greater property values than non-TOD residential development, and that transit-oriented office development had 53% greater property values than office development outside of transit station areas (DART, 2008, p. 6). Considerations of affordability should include measures of both housing and transportation cost, especially when looking at access to employment. Transit-accessible housing units provide an additional advantage for lower income residents who benefit most from affordable transportation options.

Because of the demand for proximity to transit and the limited land resources surrounding those stops, including affordable units in TODs is particularly challenging. Proximity to light rail transit stops has been shown to increase property values, a phenomenon known as the "transit premium." These increases have been shown to range from a few percent to over 150 percent increase, with greater increases evident in commercial mixed-use properties. For apartments, the documented increases range from 0-4 percent to 45 percent. (CNT, 2013, p. 7)

These documented land values further speak to the need for programs that subsidize an affordable component or complete affordable housing project, like LIHTC, EB-5, and TIFs, which are often met with political speculation but have historically been the most effective means of financing mixed-income and affordable projects. Wierzenski believes that, to the extent possible, getting City Council support for mixed-income projects is the best way to get a project through, because the mission of those elected officials is closely aligned with providing housing choices to the residents of Dallas. Bringing City Council's attention to the need for affordable housing along rail could have a real impact on changing the hearts and minds of Dallas bureaucrats who can impact policy and implementation of programs that subsidize affordability.

Chapter Three: Financing Mixed-Income TOD

Success in Other Cities

Mixed-income and affordable transit-oriented development is a pattern of development that receives rather varied funding sources in cities across the country. For most projects that include units for residents making 60% of AMFI or below, capitalizing on federal tax credit programs like LIHTC and NMTC are crucial methods of helping fund the gap created by supplying affordability. Cities often capitalize on the opportunity to create special TIF funding districts and form public-private partnerships to get deals done. Creative land-banking concepts and the development of TOD-specific funds have been the major difference in the success of affordable TOD-rich cities. The City of Dallas, DART, and leadership concerned with the pattern of transit-oriented development in the city can benefit from implementing the concepts employed with success in other cities across the country. Examining the proactive and successful funding methods of these other cities is important in realizing the potential for new options in Dallas.

In Atlanta, a $75 million Housing Opportunity Bond program provides land acquisition, bridge financing, and second mortgage gap loans for affordable housing and gives preference to projects near mass transit. A $10 million fund for housing preservation and production, Beltline Affordable Housing Trust Fund, has been another outlet for securing affordable housing near rail stations. The City of Atlanta and Fulton County Land Banking Authority can acquire and hold properties for three to five years as part of community redevelopment efforts, ensuring control of transit-adjacent land for use that includes affordable housing. To date, three successful projects have been constructed along Metropolitan Atlanta Rapid Transit Authority (MARTA) rail. (Enterprise, 2010, p. 13)

Washington D. C. has a land contribution policy in which the land contributed to a TOD is assessed below market values, enabling a developer to use that discount toward the provision of affordable units. In the Washington region, Washington Metropolitan Area Transit (WMATA) banked land around stations and initiated joint development opportunities. Their land control and initiative helped ensure the development of mixed-use high and mid-rise buildings around its stations (Dunphy, 2007, 32). Also serving D.C. TOD developers are the Site Acquisition Funding Initiative (SAFI), the Local Initiatives Support Corporation (LISC), and the OpenDoor Housing Fund, all of which provide resources for affordable housing production, preservation, and rehabilitation (Enterprise, 2010, p. 10). D.C. is a prominent advocate of mandatory inclusionary zoning, which they introduced as law in 2009. The policy requires affordable units in new projects of 10 or more units and in rehabilitation of properties that are expanding by 50 percent and/or adding 10 or more units (Enterprise, 2010, p. 10). The nation's capital has been a leader in the advocacy and implementation of affordable housing policy; even before their rigid inclusionary zoning law, a minimum of 20% affordable housing was a requirement on land developed around WMATA stations (Enterprise, 2010, p. 29).

Denver and the San Francisco Bay Area have worked with their local development agencies, private foundations and institutions, and non-profits, like Enterprise Community Partners, to create structured funds. The Bay Area Transit-Oriented Affordable Housing (TOAH) fund is a $50 million fund that provides for affordable housing and other community services. The fund offers predevelopment loans, acquisition loans, construction bridge loans, construction-to-mini-permanent loans, and leveraged loans. 85% of the fund's capital was targeted to specifically support the creation and preservation of affordable housing in TOD (Bay Area TOD 2013). Denver formed the first affordable housing fund in the country in 2010 with the purpose of creating and preserving over 1,000 affordable units rented at 60% AMFI and below. Their revolving fund is managed through and entity called the Urban Land Conservancy (ULC) and has grown from an initial $15 million to now $30 million in total loan capital. The Denver fund makes capital available for developers to purchase transit-adjacent land and hold sites for up to five years. (ULC 2013)

These TOD-specific funds are used to strategically acquire land and incentivize affordable housing development within transit-oriented projects. The funds, managed by capable and experienced limited-profit entities, provide short-term financing options that help developers access capital required to purchase transit-adjacent land and hold it until the market is ripe for development around a given site. The purpose of these types of funds is to incent and enable developers to acquire properties and offer flexibility in developing in unproven station areas. Borrowers are able to hold land until financing and market conditions create the right environment for implementing a TOD project that fits the appropriate scale and context for the station area (HUD, 2012).

A fair amount of affordable transit-oriented development has taken place in California, much of it leveraged through local initiatives like inclusionary zoning, and before they were shuttered during the recession, redevelopment agencies. San Diego has been at the forefront in promoting TOD in the state. In 1992, the city of San Diego adopted the first TOD ordinance in the United States, calling for compact, infill development and the creation of "urban village overlay" zones at transit stops (Dunphy, 2007, p. 36-37). In Santa Clara, tax-exempt financing, public assistance with land assembly, and overlay zones that allowed density bonuses, have been used to leverage TOD (Dunphy, 2007, p. 40). In Los Angeles, similar to the D.C. practice, many TODs have benefitted from a write-down of land costs and the issuance of tax-exempt bonds from the aforementioned redevelopment agencies (Dunphy, 2007, p. 44). The Community Redevelopment Authority in Los Angeles, in partnership with their Metropolitan Transit Authority, was able to require affordable housing in new developments where the transit agency owned most of the land for the project. Because most mixed-use TODs in Los Angeles received offsetting subsidies that required affordable unit allocation, these developments in inner-city neighborhoods surrounding LA Metro rail flourished (Dunphy, 2007, p. 46).

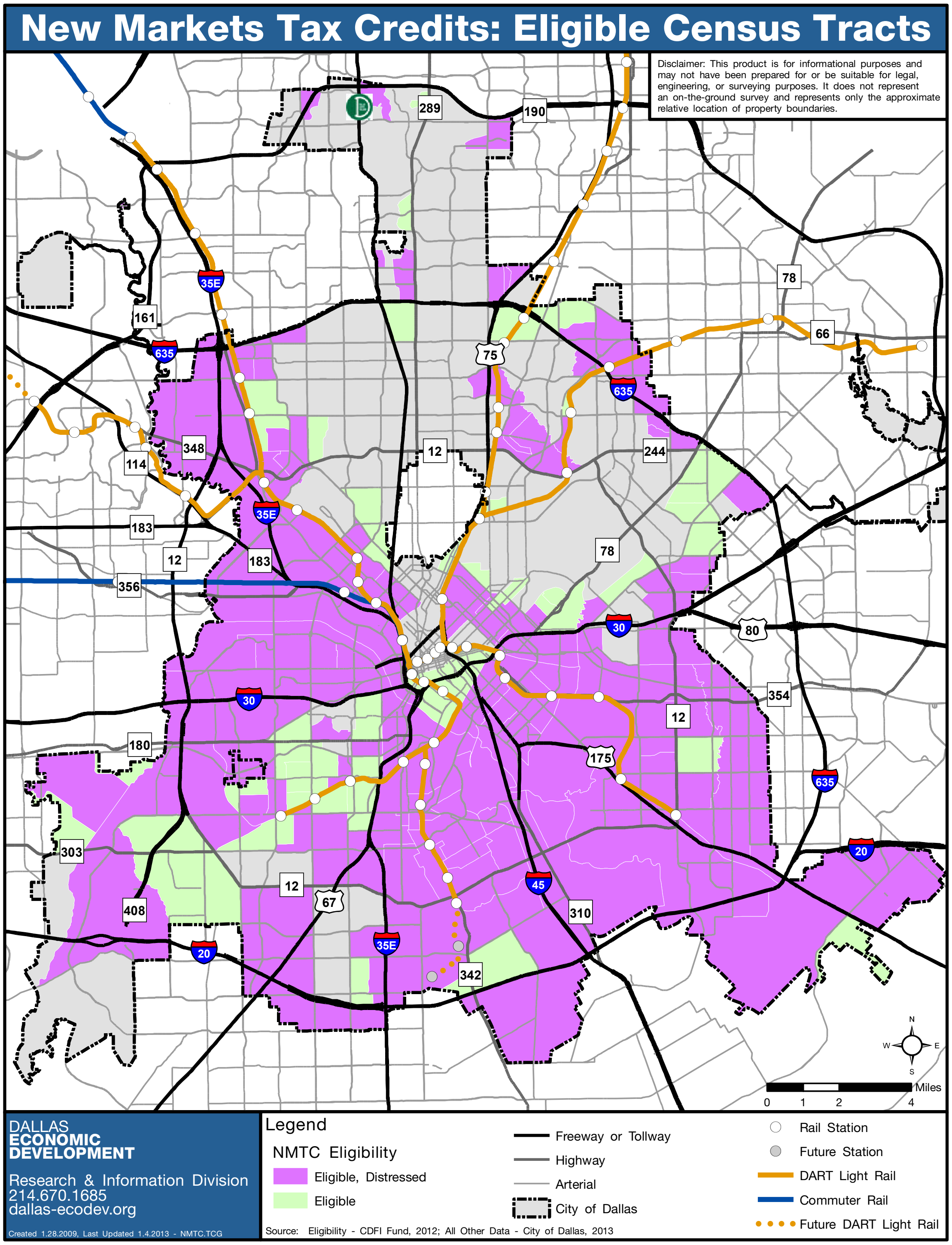
Federal Programs

New Market Tax Credits

Created by Congress in 2000, the New Market Tax Credit program is used to spur new and increased investment in businesses and real estate projects located in low-income communities. The program provides NMTC investors, typically individual or corporate investors, with a 39%, seven-year credit against their federal income tax return in exchange for equity investment in tax credit funds. The equity provided by the investor is essentially an up-front payment for a seven-year stream of federal income tax credits. (CDFI Fund 2013)

The New Market Tax Credit program in Dallas is administered through the City of Dallas Office of Economic Development, and a significant priority for the program is the creation of employment opportunities in economically distressed areas of the city (S. Hounsel, personal communication, July 26, 2013). In 2009, the Dallas Development Fund (DDF) was created to manage the NMTC allocation for the city, which comes from the federal Department of Treasury. This entity controls the city's allocation and uses a specific set of criteria to award projects with the tax credit. Developers seeking NMTC dollars in Dallas must secure other financing sources for approximately 75% of their total development costs because the NMTC program can only generate enough capital to finance about 25% of a given project’s costs. Eligible projects must have at least $4 million in development costs and be located in a NMTC-eligible census tract, based on income and poverty levels. The map in Figure 3.1, produced by the City of Dallas Office of Economic Development, indicates the qualified census tracts for the local New Market Tax Credit Program.

Figure 3.1: NMTC Eligible Census Tracts within the City of Dallas, 2013



(Office of Economic Development)

The NMTC eligibility checklist also accounts for the number of permanent full-time equivalent jobs created, as well the number of low-income residents the project is estimated to serve on an annual basis. Additional considerations are given to the catalytic effect that the project will have on the surrounding area (Dallas Economic Development, 2012). Lancaster Urban Village is the most recent and relevant example of a mixed-income TOD receiving these funds in Dallas (see development location in Figure 4.1).

Low Income Housing Tax Credits

The competitive 9% Low Income Housing Tax Credits (LIHTC) program is the primary source of subsidized funds for affordable housing development in the United States. Since the program was created in 1986, use of these tax credits has contributed to the development of more than 1.5 million units across the U.S. and over 120,000 units throughout Texas (Silverman, 2011, p. 93). The Texas Department of Housing and Community Affairs (TDHCA) administers the program and LIHTC is generally considered the single most effective subsidy for the development of new affordable multifamily housing. While LIHTC is the go-to source for the kind of mixed-income housing advocated in this research, the program's historical allocation in Dallas poses significant problems for the strategic use of these funds in new developments across the city.

The City of Dallas receives roughly twenty percent of the state's federal LIHTC allocation, which comes out to roughly $10 million annually. To qualify for tax credits, a proposed development must involve new construction or substantial rehabilitation of existing residential units (at least $12,000/unit in direct hard costs). Each qualified tax credit development must include a minimum percentage of rent-restricted units set-aside for eligible tenants. (TDHCA 2013)

For reference, AMFI in 2013 in Dallas is $47,250 for a singe person household and $67,500 for a household of four (City of Dallas, 2013). LIHTC-eligible developments are those that meet either of the following requirements:

> Twenty percent (20%) or more of the residential units are both rent restricted and occupied by individuals whose income is fifty percent (50%) or less AMFI; or
>
> Forty percent (40%) or more of the residential units are both rent restricted and occupied by individuals whose income is sixty percent (60%) or less of AMFI.
>
> (TDHCA, 2013)

In 2008, a group called the Inclusive Communities Project sued the TDHCA for its historically segregated allocation of points and credits. Tax credits have not directly succeeded in deconcentrating poverty or in providing opportunities for the poor in higher income and opportunity areas; only twelve percent of tax credit units serve residents earning fewer than forty percent of average median income (Silverman, 2011. p. 94). LIHTC allocation has perpetually encouraged affordable housing segregation into lower income, minority areas of Dallas (evidenced in evaluating Figures 1.4, 1.5, and 3.2). The resulting framework proposed for awarding more points to higher opportunity areas will promote projects in more socioeconomic diverse sections of Dallas, relative to historic LIHTC project locations. The number of areas that truly capture the highest factor levels for poverty, income, and school quality is small (see Figure 3.3), and development in those areas is further challenged by allowable zoning and community response in welcoming an affordable project.

The revised qualified allocation plan resulting from the lawsuit embraces the notion of providing maximum permissible incentives for areas that reflect the greatest opportunity; those with the highest income, lowest poverty, and best public education access. In order to qualify as a high opportunity development, a project must be located in a census tract that has a low incidence of poverty, income above AMFI, and in the attendance zone for a Texas Education Agency (TEA) recognized or exemplary school.

Analysis of historical allocation was performed in Figure 3.2, which conveys the concentrations of LIHTC units across Dallas. These concentrations in lower-income segments of the city pose challenges that developers will face in pursuing new projects, hoping to use LIHTC. This analysis was initiated by laying out the segregation issue in Dallas in the first chapter of this research in figures 1.3 – 1.5, which display the disparities of race, income, and poverty distribution in census tracts across Dallas. The TDHCA created an "Opportunity Index" to incentivize applications for developments located in the highest income and lowest poverty areas of Dallas. The Opportunity Index is reflected in the following table 3.1.

Table 3.1: TDHCA LIHTC QAP Opportunity Index 2013

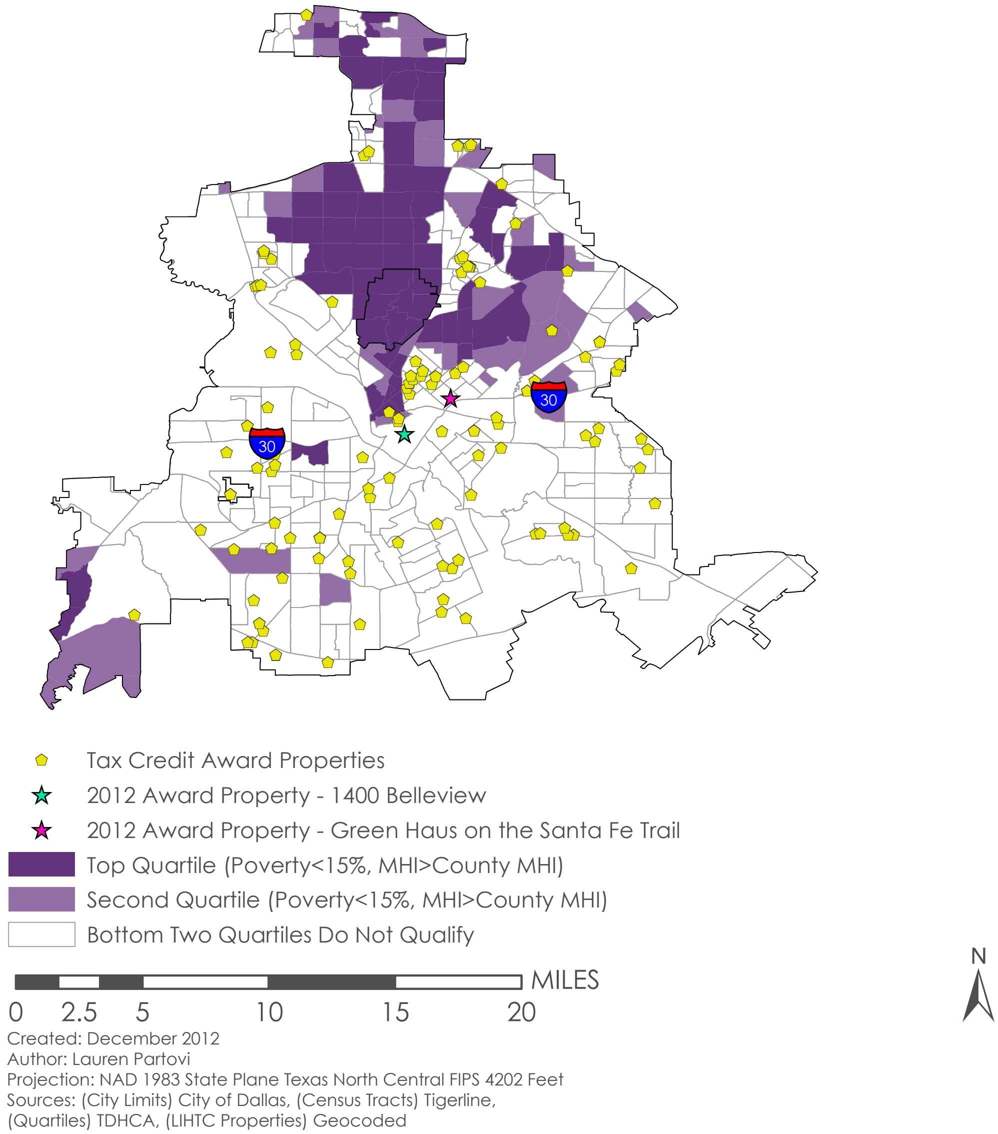
Points	Poverty Factor	Income Factor	School Quality
7 points	<15% for all individuals	Tract in top quartile of median household income for county or, for site in an Metropolitan Statistical Area (MSA), top quartile for MSA	"Exemplary" or "Recognized" elementary school
5 points	<15% for all individuals	Tract in top 2 quartiles of median household income for county or, for site in an MSA, top 2 quartiles for MSA	"Exemplary" or "Recognized" elementary school
5 points	<15% for all individuals	Tract in top quartile of median household income for county or, for site in an MSA, top quartile for MSA	"Exemplary" or "Recognized" elementary school
3 points	<15% for all individuals	Tract in top quartile of median household income for county or, for site in an MSA, top quartile for MSA	N/A
1 points	<15% for all individuals	Tract in top 2 quartiles of median household income for county or, for site in an MSA, top 2 quartiles for MSA	N/A

(QAP, 2013, p. 13)

According to the current QAP, projects receiving a letter of support from transit agencies may also receive two points toward their score (Housing Tax Credit Qualified Allocation Plan, 2013, p. 17).

The LIHTC program has historically, albeit unintentionally, promoted racial and economic segregation by continuing to funnel low-income housing units into poor and predominantly minority communities that already included a disproportionately high percentage of government-assisted affordable housing. This pattern of LIHTC investment has denied many low-income renters the opportunity to choose housing in higher-opportunity, less segregated areas (Poverty & Race Research Action Council, 2008). In the following Figure 3.2, existing and recent LIHTC awarded properties are mapped relative to current TDHCA Opportunity Index requirements.

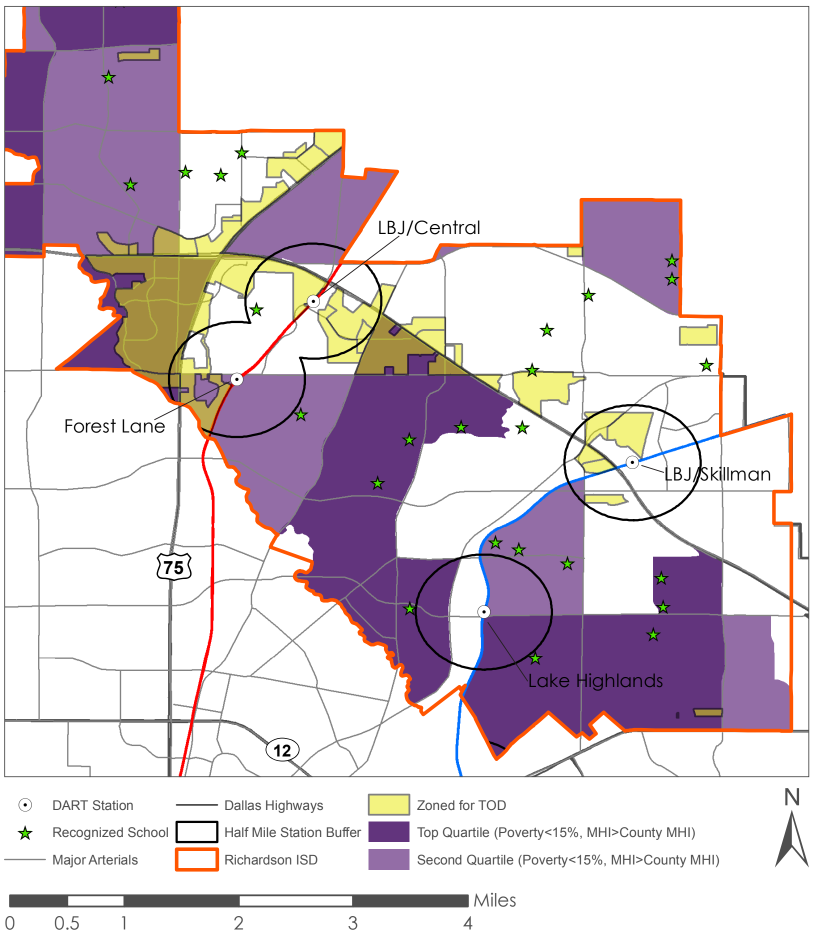
Figure 3.2: LIHTC Properties & 2013 Opportunity Index



Further analysis related to the Opportunity Index was then performed to identify areas considered the "highest opportunity," and zoning outlines were applied to visualize land availability for multifamily development. The mapping exercise performed in

Figure 3.3 again highlights the two highest quartiles of economic opportunity with an added layer of TEA recognized schools (there are no exemplary schools within Dallas transit sheds), which make projects located in their attendance zones eligible for up to seven additional points in the 2013 QAP.

Figure 3.3: Dallas Areas Maximizing 2013 LIHTC Opportunity Index



Created: July 2013
Author: Lauren Partovi
Projection: NAD 1983 State Plane Texas North Central FIPS 4202 Feet
Sources: City of Dallas, Tigerline, TDHCA, Texas Education Agency

The TDHCA has tailored their Opportunity Index to prioritize development in census tracts with a poverty rate below fifteen percent for individuals and median household income levels in the top two quartiles for the MSA (Metropolitan Statistical

Area). Prioritizing these higher opportunity areas will help mitigate continued segregation in tax credit allocation, but poses serious challenges for developers looking to provide LIHTC-funded housing in Dallas. The results from the mapping exercises show limited options for parcels that fall in qualified census tracts and are zoned for multifamily development. Neighborhood backlash to stigmatized LIHTC-financed affordable housing product makes approval for tax credit projects in north Dallas particularly challenging.

HUD Section 108

The Section 108 loan program is a competitive loan guarantee process administered by the City of Dallas Office of Economic Development. The program is a U.S. Department of Housing and Urban Development (HUD) tool that allows cities to convert Community Development Block Grant (CDBG) monies into federally guaranteed loans large enough to help finance catalytic development projects that have the potential to renew and restore a neighborhood (HUD 2013). Section 108 loans require a designated repayment source, typically revenues from the new development, but are backed by HUD's allocation of future CDBG funds to the city. So if these 108 loans default, the recourse falls to the City of Dallas in the form of current and future CDBG allocations.

The Dallas City Council has divided its limited allocation of Section 108 loans fifty-fifty between north and south Dallas. Competition for Section 108 financing in the north has historically been fiercer than the south, where it is hard to put deals together. Lancaster Urban Village used a Section 108 loan to complete its capital requirements, and because of the depressed status of the neighborhood in South Dallas, the repayment source for that loan is tax increment generated by development around DART rail stations in more robust markets to the north.

HUD 221(d)(3) and 221(d)(4)

The HUD 221(d)(3) and (4) multifamily rental loan programs do not offer direct government subsidy, but provide a non-recourse guarantee that offers attractive benefits for both for-profit and nonprofit developers. A 221(d) construction or rehabilitation loan does not have the same barriers to acquisition as subsidized and tax credit loan products, and while it does not mandate affordability, it does offer up to forty-year fixed interest rates. This type of mortgage loan insurance is often paired with LIHTC, and beginning in 2013, (d)(3) loans will only be issued to projects also receiving LIHTC (HUD, 2013).

Section 221(d)(3) is designated for use by nonprofits and for-profit borrowers use Section 221(d)(4). Both programs make capital more readily available to assist the private sector in the construction or rehabilitation of rental and cooperative housing for moderate-income residents. The principal difference between the (d)(3) and (d)(4) programs is the amount of insured mortgage available to nonprofit and for-profit borrowers. With the Section 221(d)(3) loans, nonprofits may receive an insured mortgage of up to 100% of the project's estimated replacement cost. For-profit developers using Section 221(d)(4) can receive a maximum mortgage of 90% of the replacement cost estimate. (HUD, 2013)

These provisions, coupled with the non-recourse and fixed interest, make HUD loans some of the most competitive money in the real estate industry. The greatest challenge, for profit-motivated developers especially, is timing a development project appropriately with the market given the months it takes to get a project through the multi-stage HUD loan approval process, sometimes taking more than eighteen months. All told, there is no better source of first lien financing for real estate, and developers who are willing to go through the bureaucracy involved with pursuing a 221(d)(4) loan will reap the long-term benefits.

Public-Private Partnerships

DART and the Transit Agency Role

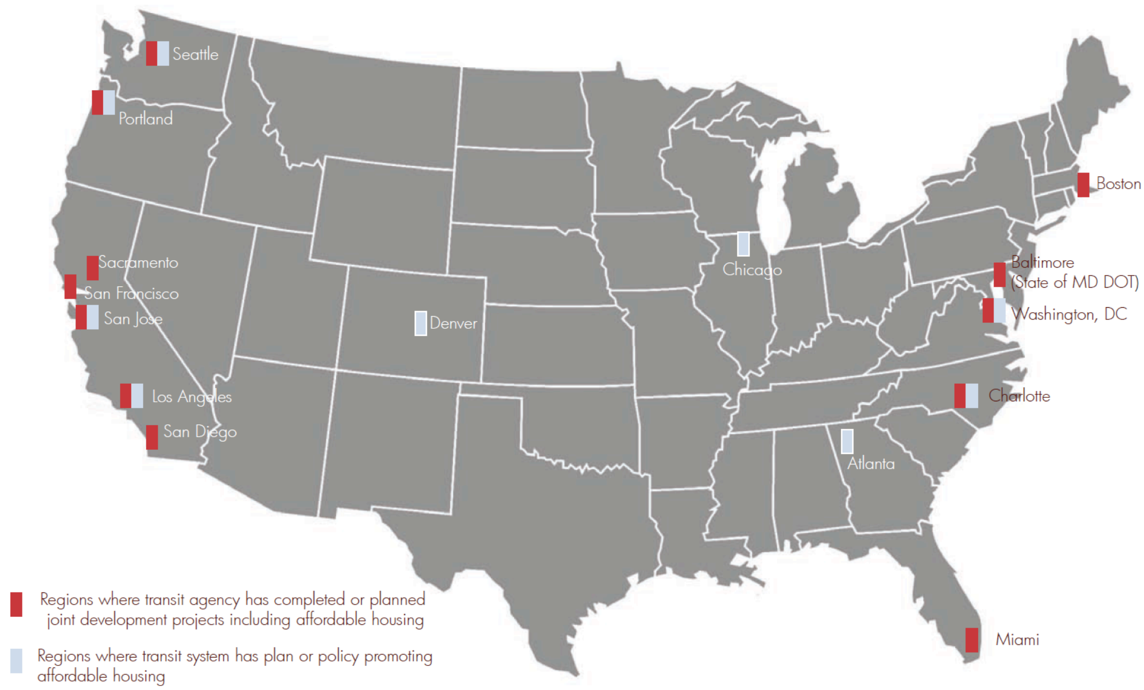
DART has built one of the most robust mass transit rail systems in the country and connected millions of people in the DFW metroplex to the region's primary employment and cultural center in the heart of Dallas. When it comes to transit-oriented development, DART has let the market and private sector control its destiny. DART wants to see vibrant, mixed-use, and mixed-income projects around its stations, but the transit agency is staying out of the realm of development advocacy and instead reacting to developers who express interest. Currently, DART does not have any affordability measures or priorities stated in their TOD policy and guidelines, and their board has shown little interest in expanding the scope of the agency, believing a measure supporting affordable TOD would be veering off its transit-specific mission (J. Wierzenski, personal communication, July 18, 2013). Unfortunately, DART board members are singularly concerned with mobility and the mission of transit, and disinterested in cultivating creative solutions that could get difficult mixed-income TOD projects out of the ground around their stations.

DART was proactive during the development of its lines by acquiring large tracts surrounding the rail stops for near-term use as park-and-ride facilities. As a result, the agency has the capacity now to partner with developers and work out land-lease opportunities with developers using shared parking strategies. DART has a track record of success using these methods at stops across the metroplex, including the highly successful Mockingbird Station. While DART isn't being proactive in the TOD space, their ground leasing tool does allow them to partner with developers. The Director of Economic Development at DART, Jack Wierzenski, at least believes the agency should contribute to TOD infrastructure that dually serves the development and transit users at a TOD site (personal communication, July 18, 2013). He points to other agencies across the country, like Los Angeles Metro, who work with developers to successfully net-out infrastructure costs using project revenues. DART can also swap land with the City, but the Dallas cannot then turn around and sell the land to a developer. However, if the property is located in a TIF district, like much of the land surrounding DART rail stations, the City doesn't have to go out to bid. That land must then go to public use. Such public uses could include valuable amenities to a mixed-use development like public parking or open space.

Given the nature of transit infrastructure spanning across several municipalities and connecting across the DFW metroplex, the area Council of Government, NCTCOG, is often involved in funding rail and transportation infrastructure. Wierzenski at DART cautions against partnering with the COG in a TOD because those funds come with many strings and the COG's bureaucratic process "just goes on forever." In a housing market with regular ebbs and flows, that process delay can really hinder the success of a mixed-use deal looking to include market rate supply. Prescott Realty, the group behind a mixed-use development called Lake Highlands Town Center at the Lake Highlands DART Blue Line Station, experienced COG red tape as a primary issue in delaying development. That troubled project began infrastructure construction in 2009 and encountered years of delays and stalled during the recession, but is currently under construction and facing a strong demand market. The project will bring 200 apartment units to the market in early 2014.

The limitations of DART's contributions come heavily from the Federal Transit Administration (FTA), whose current mission statement and guidance policies omit TOD and affordable housing. The federal agency is crafting joint-development guidelines, in draft stages, and currently requires a "fair and meaningful return" for transit agency-owned land, which is challenging to quantify. DART cannot legally discount their property contribution because of both federal and state law requiring a fair market valuation. Cities can discount their land through their economic development authority, which California cities have done through their Redevelopment arms, but transit agencies' hands are tied. Changing DART's ability to contribute to development projects would require legislative action and raise questions as to the true mission of the agency. Just getting transit-oriented development into the mission presents a challenge, let alone a focus on housing that includes affordability targets. The following Figure 3.4 identifies transit agencies across the county where affordable housing is a demonstrated priority.

Figure 3.4: Transit Agencies with Affordable Housing Policies or Developments



(Kneich, 2010, p. 6)

Because transit agencies often do not have real incentive power for subsidizing development, they partner with their cities, which do have the capability to subsidize affordability. In states where transit agencies successfully partner with developers for affordable housing, the agencies typically partner with another public entity like the city redevelopment agency. In those types of partnerships cities will put in money for infrastructure, like parking through the TIF funding, in order to meet the affordability gap.

Tax-increment financing is a popular tool for funding development in which increased property tax revenues resulting from new development are capitalized upfront to pay for infrastructure improvements and land-cost subsidy. The Dallas TIF program and its administrators are housed within the Office of Economic Development, which works closely with DART to ensure the success of TOD projects.

The City of Dallas

The City of Dallas Office of Economic Development and Housing and Community Services Department work in partnership with DART to help developers build transit-oriented projects. The City helps developers through several funding sources that include allocation of HUD Section 108 loans, NMTC, TIF increment, and general obligation bond funds. Support letters and pledges from the City can weigh significantly in the State's allocation of LIHTC. While the City has multiple tools to fund TOD and affordable housing, successful projects typically require a layering of multiple methods and private equity contributions.

The City of Dallas has historically and primarily contributed to TOD projects through the use of TIF funds, where public funds are used to help projects pencil out in the short term in order to get developed. TIF funds are traditionally used for structured parking and site infrastructure costs, which in turn indirectly offset the cost of providing affordable units. Use of Dallas TIF funds requires a 20% set-aside for affordable units in North Dallas and a mixed-income unit requirement in South Dallas that includes market rate product. That affordability is generally defined as 80% of AMFI, which, at $37,800 for an individual, is more than three times the 2013 U.S. poverty level of $11,490 (City of Dallas, 2013). Really, affordable housing is a by-product of TIF use where the City's primary motivation is just to get the project done. TIF funds are not used directly to offset the cost of affordable housing, but in limited cases Dallas has used TIF funds directly in the form of a grant. The "grant" designation is just a way to label the TIF funds, and its allocation is still dependent upon the projected tax increment revenue to pay it back (S. Hounsel, personal communication, July 27, 2013).

The TIF agreements are generally twelve years, often extended to twenty years, and lending amounts are calculated based on the tax increment created by a new development. In very depressed areas of any city, where development comes in and is the only new product in an area, land value increases can take a longer time to reach the point where they start to pay back the increment borrowed through a TIF. For example, at South Side Lamar in the Cedars TIF, which was developed in 2002, the TIF is just now beginning to collect increment. Lancaster Urban Village, also in the southern sector, received a very heavy TIF subsidy. The City's funding commitments to that project were many times more than what Lancaster Urban Village will likely generate in taxes over the life of the TIF. Projects in South Dallas simply will not create the increment over the life of the TIF to pay back the increment fronted for the project, so those deals require importing TIF subsidy from other station areas. Of course, these different development patterns and rates of development success will occur around DART stations in different parts of Dallas based on demographics. The City is willing to take the investment risk in situations where it believes a project has the capacity to raise the standard of housing and income profile of an area, and hopefully have spillover effects that encourage more new development and help improve the overall market (J. Killingsworth, personal communication, July 23, 2013).

Dallas and DART have been innovative in their TIF capture strategy, extending their TOD TIF along the rail line and enabling the transfer of increment from more successful station areas to struggling transit-adjacent sites that need more subsidy to develop (see Dallas TIF Map in Appendix C). Lancaster Urban Village was the first project to use this strategy as a way of insuring Section 108 loan repayment, by importing increment from Lovers Lane and the Mockingbird Station area. 40% of the Lovers Lane/Mockingbird increment remains in the area, 40% goes directly into Lancaster Corridor, and 20% can be used in other areas of the TOD TIF. This method of transferring and importing increment along the rail line right of way is a very unique TIF model and serves as precedent in creative public financing for the entire nation.

The use of general obligation bond money, which is typically reserved for infrastructure improvements and investments, has been used more recently for economic development in Dallas. This flexible bond funding is limited city money, and because of that, there are significant turf wars over the pool of funds. Projects receiving bond funding in the form of the City purchasing land for development, must go before the City Council for approval. These bond expenditures get individual approval from City Council and as such are typically located in strategic investment areas for the city, either economically disadvantaged communities or specific areas of interest. Such areas include the suburban Lake Highlands Town Center TOD to the north and the Lancaster Corridor to the south. Both projects allowed for the teardown of concentrations of blighted uses that included dilapidated motel and apartment properties.

According to Sue Hounsel in the Office of Economic Development, Dallas City Council is strongly in favor of public funding mechanisms like LIHTC, NMTC, and others that don't give up money from general city funds or direct CDBG funds. This is part of the strength of the TIF program, which accounts for itself through increased tax increment. Another avenue of financing affordable development, or projects in lower-income areas with smaller projected returns, is the new EB-5 foreign investor program instated through the 2012 federal JOBS Act. This program allows foreign citizens to invest between $500,000 and $1MM in exchange for a green card.

EB-5 funds are channeled through the Dallas Regional Center, which is managed by profit-motivated Civitas Capital Management on behalf of the city. That group has done over $300 million in EB-5 deals in the metroplex since 2009 and averages about $30 million in EB-5 investment per project (R. Heinsch, personal communication, July 17, 2013). EB-5 dollars can be paired with federal or city-based subsidy to help fund projects that may be difficult to finance based on the cost of development or the project's inability to attract more conventional capital sources. The City of Dallas meets the general EB-5 investment criteria based on its density and unemployment levels, and is therefore eligible for investments at $1 million and above.

On the private-sector development side, similar to the bureaucratic difficulty in getting a (d)(4) HUD loan approved, there is skepticism with E-B for how long the federal government will take to approve foreign investors (Tax Credit Advisor, 2013, p. 43). From the perspective of for-profit developers, the six to nine months it takes raising EB-5 funds poses an opportunity cost. However, given the investor return expectations for those investments rest just above the thirty-year treasury yield, which is currently 3.48, that waiting can be well worth it (R. Heinsch, personal communication, July 17, 2013).

Crowdfunding Real Estate

Crowd sourced fundraising has become a popular means of raising money for all kinds of projects, from shooting independent films to mass-producing new household items, that might not be able to access traditional funding sources. It is an online-based method of gaining financial support that has traction with millennial creatives without the business acumen, financial backing, or contacts to tie down a traditional loan, but do have an innovative product or idea that inspires support from like-minded internet users. Frustrated by difficulty in raising capital in a struggling economy and an investment environment dominated by financial institutions, real estate developers are looking to tap into this crowdsourcing trend to find backers willing to invest in their visions of better communities.

The passing of the JOBS Act in April 2012 lifted the ban on "general solicitation," meaning that investors could now be solicited in a public forum, like a website, instead of only in closed-door, selective meetings (Green, 2013). Soon, the Securities and Exchange Commission (SEC) is expected to announce new changes that will further reduce restrictions on crowdfunding and continue to encourage this model of investment access, providing opportunities to everyday Americans with interest in investing in new opportunities. Regulation A in the JOBS act provided a SEC exemption that allows fundraisers to reach out to unaccredited investors who are registered residents in the community where the project is located. Those local investors are eligible to go online and buy shares of a building, for example, at a designated value, receiving in return partial ownership of the building and a percent of the income generated from the property as it reaches and achieves stabilization. (Green, 2013)

The hope among both crowdfunding and real estate professionals interested in the concept is that further changes in the JOBS act will make it easier for unaccredited individuals to get involved with new investment opportunities and companies. The guidelines yet to be determined by Congress will standardize the way companies can set up crowdfunding platforms online and request funds, and are expected to mandate that companies provide some proof that their ideas are economically viable (Green, 2013). An issue with investment or product viability is a real one that raises some concern over the method of accessing capital from unaccredited, potentially less-informed investors. Peter Chinlow, a professor of finance and real estate at American University's Kogod School of Business, warns that because of the illiquidity of the companies looking to raise capital through crowdfunding, people should demand high returns because there isn't any existing revenue or proof that the idea exists (Green, 2013). Real estate developers with a track record of success, like the Miller brothers who founded Fundrise, can point to their business history as verification for a real project with real viability. The very nature of investing in a physical place with an address and a building, where people can frequent and physically experience their investment, should assuage some of these crowdfunding concerns as they relate to taking an equity position in real estate.

Fundrise as a Model

Fundrise is a company out of Washington, D.C. that first took the stage in 2012 as a real estate focused crowdfunding framework, drawing investors located in D.C. and Virginia to local real estate projects. The idea was born out of efforts to find support for development deals in the city's up-and-coming H Street area, where two developer-brothers couldn't draw enough interest from traditional investors and banks. The well-educated brothers and D.C. natives had an established track record as a very successful real estate family (Green, 2013). Ben and Dan Miller started Fundrise with the vision of bringing real estate investment opportunities to the people, connecting users of place with investors in place (Fundrise, 2013). Their background in traditional real estate, and successful financial history at WestMill Capital Partners and Western Development Corporation, provided a foundation of security that gave them the launching pad necessary to invest in the online infrastructure required to raise money from people, instead of banks (Fundrise, 2013).

Its industry reputation as the first and foremost real estate crowdfunding platform makes Fundrise the only crowdfunding platform evaluated in-depth for this study. Consideration of other online platforms, Realty Mogul and Collaperty, which connect potential investors with real estate deals, do not feature the same level of research and development behind constructing an efficient, easy-to-use online equity-based crowdfunding site that is both investor and real estate developer friendly.

The first project Fundrise crowdsourced was converting an empty building into a combination Asian retail market and restaurant, which raised the $325,000 capital need for the redevelopment in three months. In this first property, all investors get a proportionate percentage, based on their share holdings, of the profit from income in annual rent, as well as a portion of the 30 percent of the tenant's profit that the tenant is obligated to pay back to Fundrise. Publicity and media attention about crowdfunded real estate helped Fundrise's second project, a redevelopment property in another D.C. neighborhood, raise $250,000 with fourteen investors in only one week. (Fundrise, 2013)

In areas of Dallas that are unproven economically but exceptionally located, like those DART stations close to Downtown, the strategy of small-scale crowdfunded commercial development could help prove a market enough to draw more traditional financial support for large-scale housing development. The crowdfunding model, too, as it gains traction with investors and notoriety as a platform, could be used for larger scale projects that include rental housing. A spokesperson at Fundrise, Laura Tischler, believes crowdfunding is a viable option for multifamily affordable projects because the platform relies on community interest, the challenge is in getting into the neighborhood and generating support for that type of project (L. Tischler, personal communication, July 24, 2013). Given the need for new housing stock at many of the station areas located in depressed market segments of the City, there is great potential in churning up hyper-local interest in new development.

Chapter Four: Developing Mixed-Income TODs in Dallas

Mixed-Income TOD & Dallas

A mixed-income housing development is designed, built, and managed to market-rate standards but includes a seamless affordability component in a project that includes both affordable and market rate rents. The prices of those affordable units are structured based on the requirement of the financing, with residents typically earning no more than 80% of AMFI. The development, which often uses publicly sourced financing to meet funding needs and fill gaps, is typically owned by a private entity, or a nonprofit-private partnership, and is privately managed by a professional management company.

Affordable housing rents combined with the cost of transit-adjacent land create significant loan and equity gaps in TOD development budgets. Costly structured parking garages, required for the kind of density and mix of uses located around mass transit, and that mixture of land uses on a site, can make financing more complex, with ten or more layers of financing typical (including traditional bank debt, developer equity, LIHTC, tax-exempt bonds, NMTC, state and local grants, property tax forgiveness or reduction, TIF, municipal management districts, public funding for infrastructure, sales tax rebates and other forms of public-private cooperation) (Voelker, 2010). Aligning the interests of all of these financing sources and coordinating the relationships of all of these debt and equity sources is challenging and time consuming, requiring creative and patient cooperation between the developer, transit agency and other governmental agencies involved.

Recognizing the economic benefit of colocating a concentration of jobs with mass transit can make the development headache worth the outcome, and that understanding of value and location is a crucial piece of addressing affordable transportation access. Incorporating affordable housing brings another dimension to enhance the equity of transit-oriented development. Giving people the opportunity to live and work along rail opens the door to the middle class for Dallas residents who have historically been cut off from jobs and the economic centers of the city. The suburban cities surrounding Dallas, such as Plano, Richardson, and Carrolton have aggressively pursued TOD and compete for investment as well as a talented workforce. Dallas can capitalize on its core location and distinguish itself as the center of urban, metropolitan living and working in North Texas by creating vibrant nodes of activity along its most affordable means of transportation.

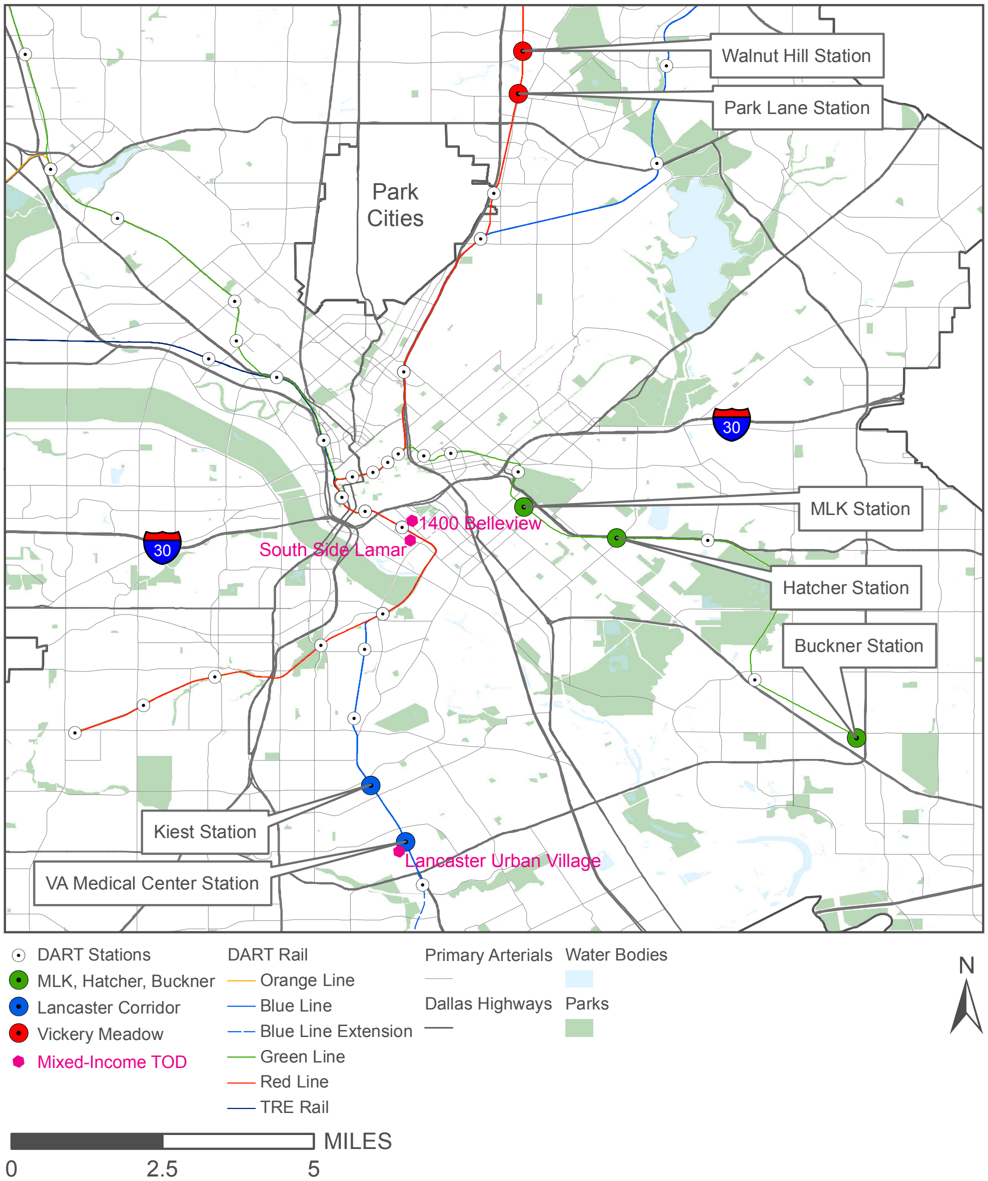
Developers involved with affordable housing development in Dallas have been historically weighted toward single family. The community development groups in Dallas have experienced success in accessing funds for this low-density pattern of affordable housing development across West Dallas and the southern sector. However, for the most part, higher densities will be more appropriate for TOD, especially in those communities hoping to benefit from commercial uses in the station area. The density of proposed transit districts should be geared to the context of what is appropriate to the community and the market (Dunphy, 2007, p. 27).

There are two environments for mixed-income TOD in Dallas; the market is either good or bad. In places where the market is strong, developers are willing to forego TIF subsidy and exclude an affordable component from their units. In areas where the market is bad, most of the units, by nature of the market in those areas, fall within affordability standards because affordability can also be achieved based on the size of the unit. This is a circumstance in which residents live in units with the same high quality finishes as market rate product, but because of their square footage and the corresponding price per square foot charged for rent, fall within the affordable range.

While the existing supply of mixed-income, mixed-use TOD in Dallas is limited; there are successful projects that provide good precedent for future development. The Matthews Southwest group developed the first and largest-scale project in 2002, South Side Lamar. The 455-unit project (identified in Figure 4.1) is located within an old Sears & Roebuck warehouse, and is considered one of the largest conversions of warehouse to apartments in the United States. Funding from the Cedars TIF, as well as public improvement district (PID) dollars, helped the project get built. The South Side Lamar property is located just south of Downtown Dallas, close to the DART Cedars Station.

1400 Belleview is another Matthews Southwest project (also identified in Figure 4.1) that benefitted from the Cedars TIF and won 9% competitive LIHTC in 2012 to develop new mixed-use construction within walking distance of the Cedars Station. Also in 2012, City-Wide Community Development Corporation partnered with Catalyst Urban Development to assemble Lancaster Urban Village, under development for a fall 2013 opening. The Lancaster project (also identified in Figure 4.1) required TIF dollars, NMTC, a land contribution from the City, as well as a Section 108 loan. The market for TOD is picking up steam and moving forward as the housing market emerges from the recession. Dallas has the opportunity to catch this wave and implement new projects. The following Figure 4.1 maps the mixed-income TODs mentioned above as well as the Small Area Plans discussed in the following section.

Figure 4.1: Existing Mixed-Income TOD & Five Small Area Plan Areas



Created: August 2013
Author: Lauren Partovi
Projection: NAD 1983 State Plane Texas North Central FIPS 4202 Feet
Sources: City of Dallas

Dallas TOD Small Area Plans

In the spring of 2012, the City of Dallas engaged Fregonese Associates, a planning consulting firm out of Portland Oregon, to use a public engagement process to develop five small area plans for economically distressed neighborhoods surrounding specific DART rail stops. Those stops (identified in Figure 4.1) are all located in areas of concentrated poverty, four in south Dallas and one located in a northern portion of the city, where the majority of residents proximate to the stations are Hispanic and African American. Each of the five selected areas went through its own planning effort, incorporating input and implementation suggestions sensitive to that area's distinctive character and potential. They are the Lancaster Corridor (served by DART's Blue Line), Hatcher (Green Line), MLK (Green Line), Buckner (Green Line) and Vickery Meadow (Red Line).

The planning process engaged residents, stakeholders, area business owners, and potential project catalysts. Implementation of the plans was an underlying area of doubt for process participants, with only $500-700,000 in a "challenge fund" allocated toward the implementation of a project in one of the five areas. The remainder of the capital required for a new development is left to the private sector and the potential of public-private partnerships to implement Fregonese's work.

It should be noted that all of the plans were developed with consideration of market construction costs and the difficulty associated with securing financing for mixed-use, mixed-income projects. The "Development Action Plan" in each of the five plans includes a request for proposal (RFP) from an experienced partner and the necessary strategy item of identifying possible funding mechanisms and partners. That action plan, extracted from the *Buckner Station Area Plan* in Table 4.1, is nearly identical across all five plans.

Table 4.1: Buckner Station Development Action Plan

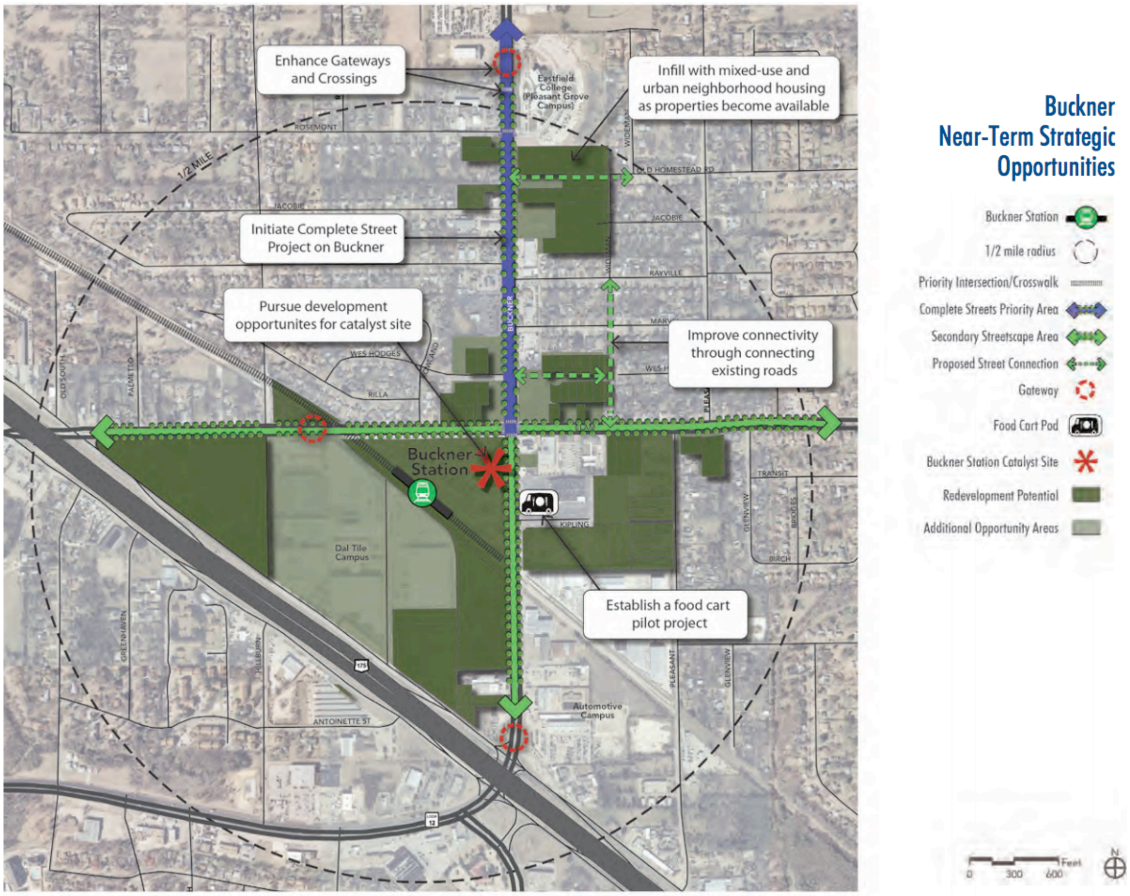
Table 5.4: Development Action Plan		
Strategy	*Action*	*Lead*
Coordinate with DART to refine project scope	• Review and refine conceptual development program.	OED/DART
Issue RFP to secure development partners	• Write RFP (seek experienced partner). • Execute City RFP process, select developer.	OED/ DART/ Purchasing
Identify possible funding mechanisms/ partners	• Private equity • Bank loans and other private debt • HUD programs, such as Section 108 and 221(d)(4) • EB-5 • 4% and 9% Low Income Housing Tax Credits (LIHTC) • New Markets Tax Credits • Public/private partnerships • Additional funding sources as they become available	OED/Private Development Partner
Facilitate development proposals	• Negotiate development agreements with selected groups to secure funding and implementation.	Developer/OED
Coordinate with local development partners	• Select partners to develop on identified catalytic sites and sign development agreements with appropriate incentives.	OED

OED – Office of Economic Development

(Dallas TOD, *Buckner,* 2013, p 37)

The Buckner Station has no development projects in progress, but its proximity to a major community college and younger demographic could potentially support new multifamily development. Eastfield College at Pleasant Grove, part of the Dallas County Community College District and home to more than 10,000 students, is located on Buckner Boulevard about half a mile north of the station. Daltile Corporation is one of the largest ceramic tile manufacturers and distributors in the country, and their corporate offices, which house more than five hundred employees, is adjacent from the Buckner Station (Dallas TOD, *Buckner*, 2013, p 8). The location, outlined in the plan in Figure 4.2, represents an exciting opportunity in the eyes of DART Director of Economic Development and Planning, Jack Wierzenski (personal communication, July 18, 2013).

Figure 4.2: Buckner Station Opportunity Map



(Dallas TOD, *Buckner*, 2013, p 26)

The Fregonese plan for Buckner Station suggests a two-story, mixed-use project with 231 new housing units above ground floor retail, 40% designated for affordable housing for very low income families, and a 200-space parking structure (Dallas TOD, *Buckner*, 2013, p 34-35). Wierzenski at DART believes the first step in improving this station area and encouraging new development is the transition of Buckner Boulevard into a complete street, using a special use permit process to phase out the auto-industry oriented uses that currently line the street. Improving the connect between the station and Eastfield College will encourage a more bicycle and pedestrian friendly environment and urbanized development that orients itself to the street.

Hatcher Station is a more suburban station area in South Dallas, where current plans are in development that include transit-oriented affordable single-family housing. This area, as suggested by Wierzenski at DART and others with the City, requires a development pattern that makes sense within the context of its neighborhood. The community is experiencing a period of revitalization just to the north of the station area under the leadership of a group called Frazier Revitalization, Inc. This non-profit is developing new affordable housing and retail north of the station area with retired former Vice President of Trammell Crow Companies, Don Williams, at the helm of the effort. The new development occurring and in the pipeline in the area does not reflect the more urbanized development concept proposed in the Fregonese *Hatcher Station Area Plan*, which proposed 270 new housing units, with 70% affordable for very low-income residents, in a mixed-use, three story project. Instead, it is scaled to the existing single-family program the pervades the area. The following land use map in Figure 4.3 conveys the context of Hatcher Station within a predominantly single-family neighborhood.

Figure 4.3: Hatcher Station Land Use Plan

(Dallas TOD, *Hatcher*, 2013, p 26)

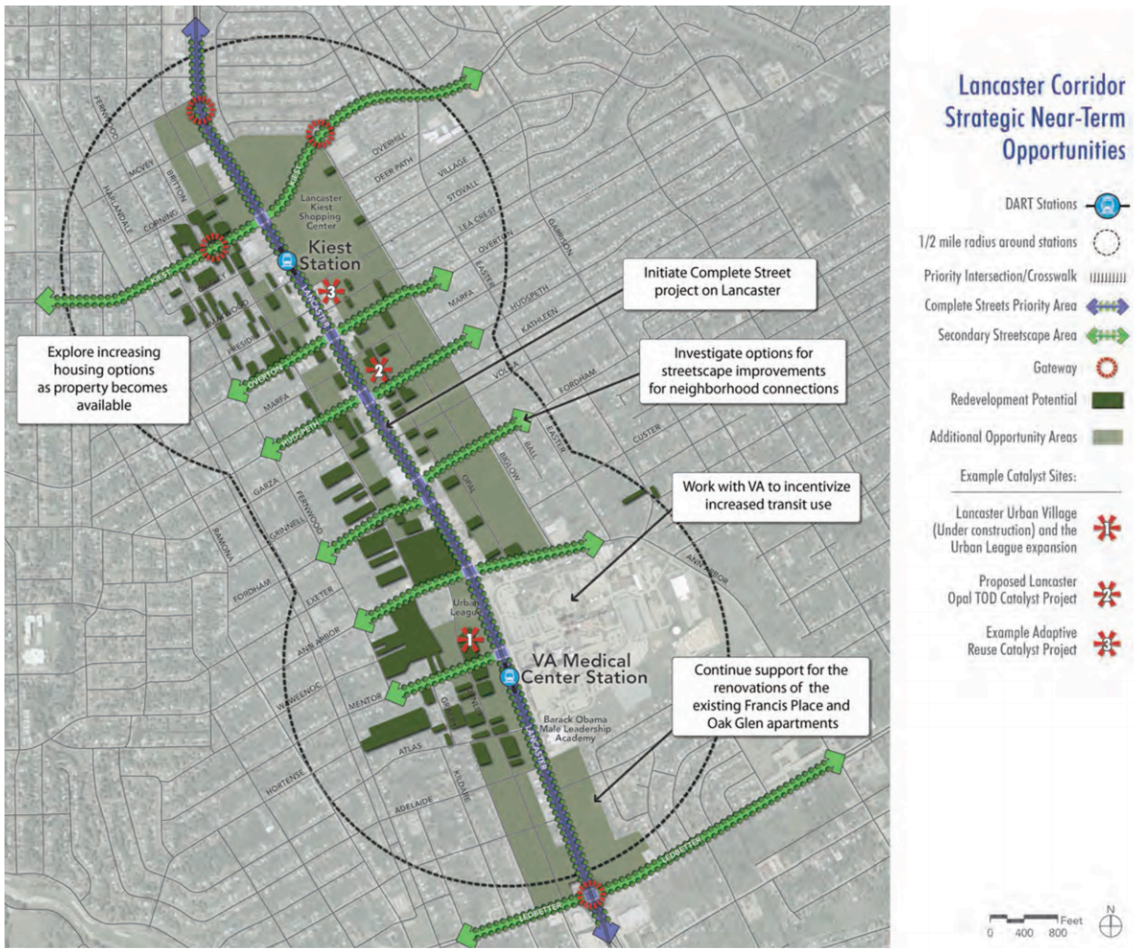
Stakeholders pursuing new development are facing the market reality that the density and mix of retail proposed in TOD plans will not succeed short term. Instead, new, quality single family housing phased in before the addition of smaller retail spaces, less that the 42,300 square feet proposed in the *Hatcher Station Area Plan*, will help the station area transition over the next few years (2013, p. 38). While the new development expected at Hatcher is smaller scale than the ideal drafted in the plan, its size makes it easier to finance through developer partnership with non-profits, DART, and the City (J. Wierzenski, personal communication, July 18, 2013). Overall, the urban acupuncture occuring at Hatcher meets the community's requests for new development that appropriately serves the neighborhood.

Lancaster Urban Village is a mixed-use apartment, retail, and job training facility that includes affordable housing at the VA Medical Center Station in South Dallas. The successful development of that project, located at one of the five small area plan sites, can be credited to the development partners, City Wide Community Development Corporation (City Wide CDC) and Catalyst Urban Development, a non-profit and for-profit team who together championed the complex financing required to get the deal through the HUD 221(d)(4) and Section 108 loan guarantee processes. The complexity of the deal required one of Dallas's best real estate development attorneys, Bob Voelker of Munsch Hardt Kopf & Harr PC. The Kiest Station stop just to the north of the VA Medical Center Station and Lancaster Urban Village, has a development in the preliminary planning stages. City Wide CDC is hoping to do another mixed-use, mixed-income project surrounding the station, serving the community in South Dallas.

Lancaster Urban Village is currently in its tenth month of construction, with its first residential units scheduled for delivery in November (T. Stenger, personal communication, August 1, 2013). This project was in development during the Fregonese small area planning effort, and was therefore embraced and celebrated in the *Lancaster Corridor Station Area Plan*. The Fregonese plan includes more development, similar in program and design to Lancaster Urban Village, mixing residential and commercial uses and including a significant percentage of affordable units. The proximity of the VA

Hospital and the DART VA Medical Center Station, with Kiest Station just to the north, provides the right environment for a potentially active and urbanized corridor in South Dallas, with Lancaster Urban Village as the first step.

Figure 4.4: Lancaster Corridor Opportunity Map

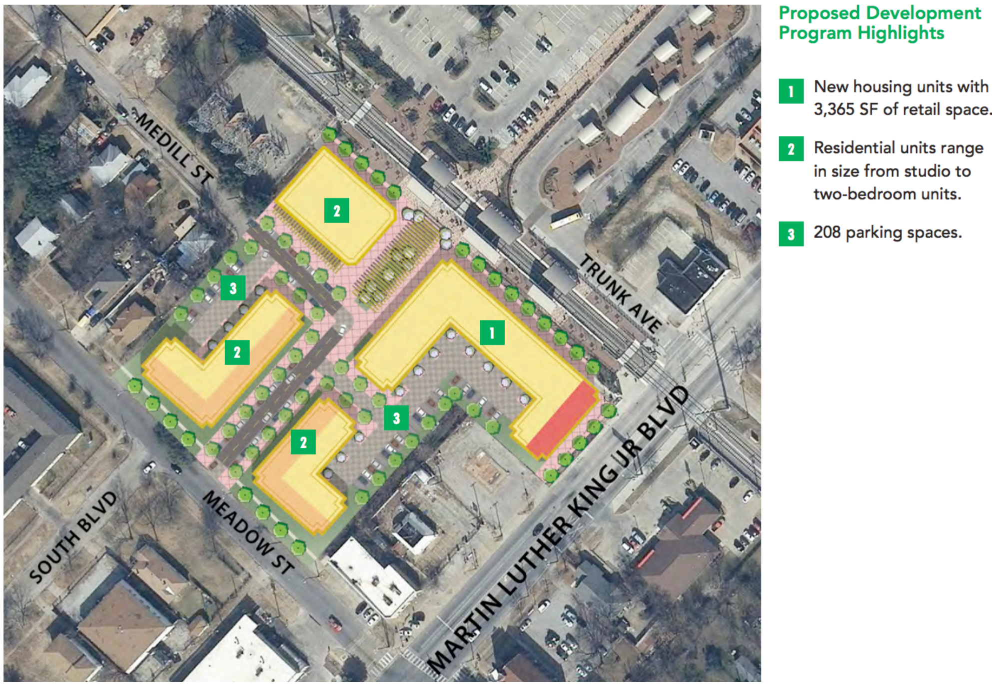


(Dallas TOD, *Lancaster*, 2013, p 26)

The development of Lancaster Urban Village gives the Lancaster Corridor the great opportunity to become a hub a new housing, retail, and commercial space for South Dallas. Sue Hounsel in the Office of Economic Development believes concentrating new development in this corridor is the best opportunity for mixed-income TOD development in Dallas right now (personal communication, July 26, 2013). Bringing new projects to the area and creating the kind of density of new uses that has the potential to improve the income profile of the area will help serve the City's goal of investing in projects that have catalytic potential, and may also help property values rise more quickly and return TIF funds through that increment.

Martin Luther King, JR. Station (MLK Station) is located south of the Fair Park Station and grounds, just beyond the area that sees a great deal of special event DART use when activities are happening at Fair Park and the Cotton Bowl, like the State Fair of Texas and college football games. Conversations with representatives in various offices of the City of Dallas suggest the MLK Station is still a ways out from seeing new development. The Fregonese proposal for the area is also the most conservative of the small area plans, suggesting only 3,365 square feet of retail space with 136 residential units that are entirely market-rate (Dallas TOD, *MLK*, 2013, p 40-41). The cost of providing parking, especially in higher density, mixed-use properties that require a multi-story structure, is a burdensome expense because of its high cost and low return in terms of enhancing the urban quality of the development around a station. The small two-story, surface parked plan shown in Figure 4.5 reflects the lowest possible development costs and highest possible returns, necessary precautions in this most-vulnerable TOD market.

Figure 4.5: MLK Station Development Plan



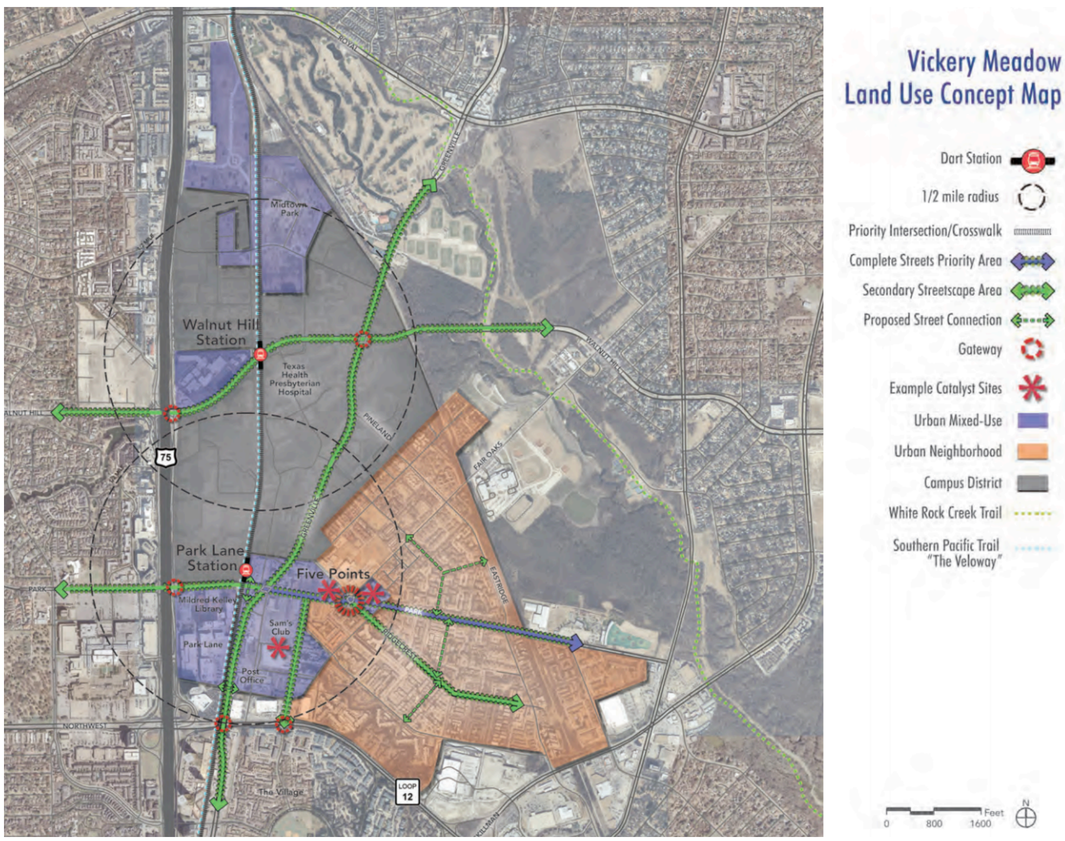
(Dallas TOD, *MLK*, 2013, p 40)

The Vickery Meadow neighborhood is comprised of several older, distressed multifamily properties located just east of the Park Lane Station and going north to Walnut Hill. At the southern border of the neighborhood is Half Price Books' largest retail location. The used-book retailer has become a primary commercial landowner in the area and has proposed a transitional retail development, born out of the Fregonese small area plan process. The Vickery Meadow neighborhood represents the densest area of the five DART stops studied during the planning process and exhibited the highest existing demand for multifamily. The socioeconomic mix of the neighborhood, however, presented prohibitive challenges for a catalytic development site. Half Price Books appears to have risen to the occasion to improve the built environment around their store, both for their neighbors and their customers.

Vickery Meadow as a community is more ethnically diverse than Dallas as whole, with approximately 50 ethnicities represented and higher concentrations of Hispanic, Black, and Asian populations relative to the city. The neighborhood is also younger than

Dallas on the whole, with nearly double the population of people between the ages of 25-34 compared to the entire city (Dallas TOD, *Vickery Meadow*, 2013, p 10,14). Like the Lancaster Corridor, the Vickery Meadow planning area includes two DART rail stations, Walnut Hill Station to the north, and Park Lane Station at the intersection of Greenville Avenue and Park Lane to the south. The Fregonese planning area has a five-point intersection at its heart, indicated as "Five Points" in Figure 4.6.

Figure 4.6: Vickery Meadow Land Use Plan



(Dallas TOD, *Vickery Meadow*, 2013, p 26)

The red-orange area designated "Urban Neighborhood" is currently made up of heavily occupied renter households in dilapidated multifamily. There is no shortage of demand for units in the Vickery Meadow neighborhood, where immigrant families live in an average household size of 2.46 people (Dallas TOD, *Vickery Meadow*, 2013, p 14).

DART and the City of Dallas gave priority to the low-income, distressed neighborhoods surrounding the five stations in the planning study, but state priorities for housing investment are at conflict with these local priorities. The Low Income Housing Tax Credit allocation process and its Qualified Allocation Plan prioritize affordable housing development in higher opportunity areas. Those areas, defined by higher income, lower poverty, and better access to quality education relative to the city, represent a disconnect between Dallas's priorities and the priorities of the State of Texas.

Creative financing is critical in implementing mixed-income TOD across different segments of Dallas. Current market conditions for the five small area plans evaluated by Fregonese and DART would not generate the revenues required for a purely private project. Blended financing structures that leverage and layer public, private, and philanthropic financing could help overcome the weakness in the market that is stunting development.

New Funding Strategies for Dallas TOD

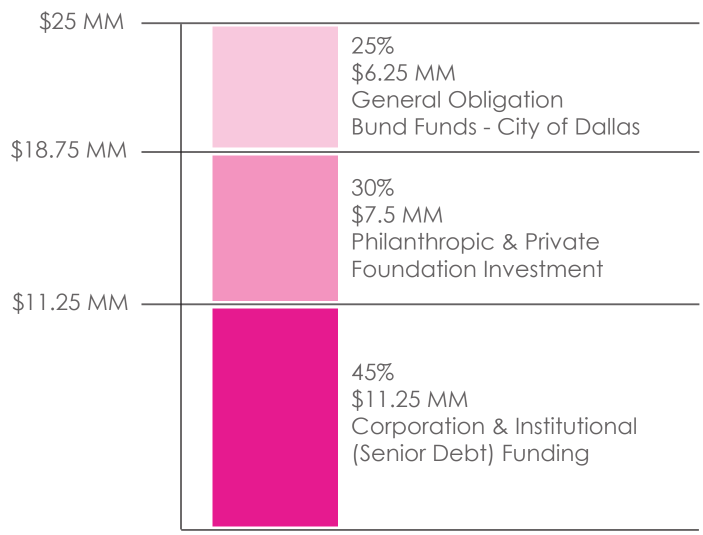
A Dallas TOD Fund

There are many funding mechanisms in place for financing mixed-income TOD, but the huge challenge is in successfully blending the current streams and then meeting the gap affordability creates. In project after project, developers have faced time-consuming stalls while trying to tackle filling the final gap of financing for affordable projects in weaker markets. A Dallas TOD-specific fund, with mixed-income housing provision as its mission, would play a transformative role in the rate of TOD development in Dallas.

Jerry Killingsworth, Director of Housing and Community Services with the City of Dallas, says the effort to start a TOD-specific fund in Dallas went through a start and stop effort from 2006-2008 (personal communication, July 23, 2013). The effort began before the recession, with Mr. Killingsworth and his office working with the local office of Enterprise Community Partners. Unfortunately, the effort fell apart right as the housing market went south in 2008. Enterprise Community Partners is the nation's foremost advocate for workforce and affordable housing colocated with mass transit stations. The non-profit operates in major cities across the United States, including a policy arm in Washington D.C. that advocates and lobbies for affordability, and a focused transit-oriented development team based out of Denver, Colorado. In the successful cities mentioned, Enterprise has been a key player in helping developers and non-profits find success navigating the tax credit process, access grant money and low interest loans, and has been a key player in helping different agencies and municipalities develop TOD-specific structured funds. Before the Enterprise Community Partners' Dallas office was closed in 2012, that office was tasked with assisting the City of Dallas in developing such a fund.

The City of Dallas could revive its effort and benefit greatly from developing the type of structured TOD fund Denver and the San Francisco Bay Area use, with affordable housing requirements in mind. In order to implement a fund that would encourage land banking, multiple layers of financing are required. The most essential piece, which typically composes 20 – 25% of such a fund, is money from governmental or quasi-governmental entities, like the City of Dallas, County of Dallas, or NCTCOG. Given the feedback received from different agencies that have been active in TOD to date, the City of Dallas seems the preferred choice. Their investment in the fund would absorb the highest risk and most junior debt position. The public investment would likely get limited or no returns, but would help catalyze private sector investment in the fund while still pursuing City goals with the funds invested. Philanthropic contributions and private foundation capital would make up 30 – 35% of the fund and could be raised from organizations like the Meadows Foundation or The Real Estate Council or any of the other wealthy, Dallas-based foundations who may be willing to accept low-to-no return, beyond their initial capital investment, to further the mission of the fund. Traditional financing would assume the least risk in the most senior position and comprise no more than 50% of the fund's capital stack. This position affords those entities the lowest risk and allows for near-market return expectations (J. Killingsworth, personal communication, July 23, 2013). National and international banks like Chase and Bank of America have Community Reinvestment Act obligations that would encourage their participation in such a TOD fund. Local corporations like AT&T and State Farm Insurance might also have an interest in investing for near-market returns as a form of public relations and expression of goodwill to the City where they are headquartered. Any developer receiving project financing from the fund would also be expected to contribute equity to the deal, which is common practice in traditional lending environments in which borrowers are required to have skin in the game (HUD, 2012). The following Figure 4.7 is a visualization of the capital investments required by different entities in order to achieve a fund in Dallas.

Figure 4.7: Dallas TOD Fund Sample Capital Stack



The Real Estate Council (TREC) of Dallas is the most robust real estate professional member-organization in the city, with a rich history of engaging in challenging urban issues. The 2011 study on *Strategies for Revitalizing Dallas' Distressed Neighborhoods*, produced by McCormack Baron Salazar, was commissioned by TREC as an ally to the City to help "spur economic development and promote quality of life" (TREC, 2011, p. i). With the resources available in their professional members, TREC has the capacity to play a key role in the development of a TOD-focused affordable housing fund. The group's interest in community revitalization in Dallas and experience working with like-minded professional institutions like Citigroup and JPMorgan Chase could provide a foundation for launching the kind of gap financing fund that has made affordable TOD possible in transit rich cities across the country (TREC, 2013). TREC could also play a role in the leadership and management of a Dallas affordable TOD fund, with documented experience creating the Dallas Urban Land Bank, which partnered with the City of Dallas using $4MM in general obligation bond funds (TREC, 2013). A Dallas TOD fund utilizing a partnership investment model that combines philanthropic, public, and private dollars to catalyze significant developments will have the capacity to begin transitioning Dallas neighborhoods.

Crowdfunding Dallas TOD

Because Fundrise and its fellow real estate crowdfunding websites do not yet provide an industry-standardized audit statement that details website traffic and investor profiles, it was difficult to perform an analysis of the likelihood of crowdfunding's success in Dallas mixed-income TOD. Instead of performing a mapping analysis or quantitative analysis of age and income and various other factors that could also include education level, this report seeks to encourage the use of a crowdfunded equity raise to bring awareness of the platform to the Dallas area. Given the newness of the opportunity for the average American with a modest investment portfolio to invest in local, hard real estate assets, this research relies on traditional market factors that drive the success of a real estate development: location, demand, access, proximity to jobs, etc.

The crowdfunding model is an exciting prospect for Dallas TOD in distressed neighborhoods where factions of the greater Dallas community see potential. Testifying before the United States House of Representatives Committee on Small Business, Fundrise co-founder Ben Miller addressed the need for these types of small-scale local investors. "The problem is that institutional capital doesn't understand emerging neighborhoods… emerging neighborhoods don't get the attention of institutional capital, even though that's really where the growth is, especially from the millennial generation."

Selling shares of a real estate property online provides a feasible way for communities to invest in themselves in a system that marries investors to direct ownership in local real estate. The difference in this way of thinking distinguishes buildings and developments as *places* instead of financial assets, the way pools of buildings are considered by financial companies. (The 2012 JOBS Act and Crowdfunding, 2013)

Large-scale housing and retail developments cost more per project that smaller scale developments and require significant market demand to be successful once they are open and leasing. More neighborhood-scaled developments in weaker markets, like those studied by Fregonese in the small area plan effort, could take a crowdfunding approach in developing building by building with specific tenants and uses selected during the pre-development effort. This strategic approach at urban acupuncture could start to change the perception of an area over time, bring in new economic functions, and encourage larger-scale redevelopment in underdeveloped segments of Dallas.

Concluding Thoughts & Recommendations

Future Mixed-Income, Mixed-Use TOD Sites

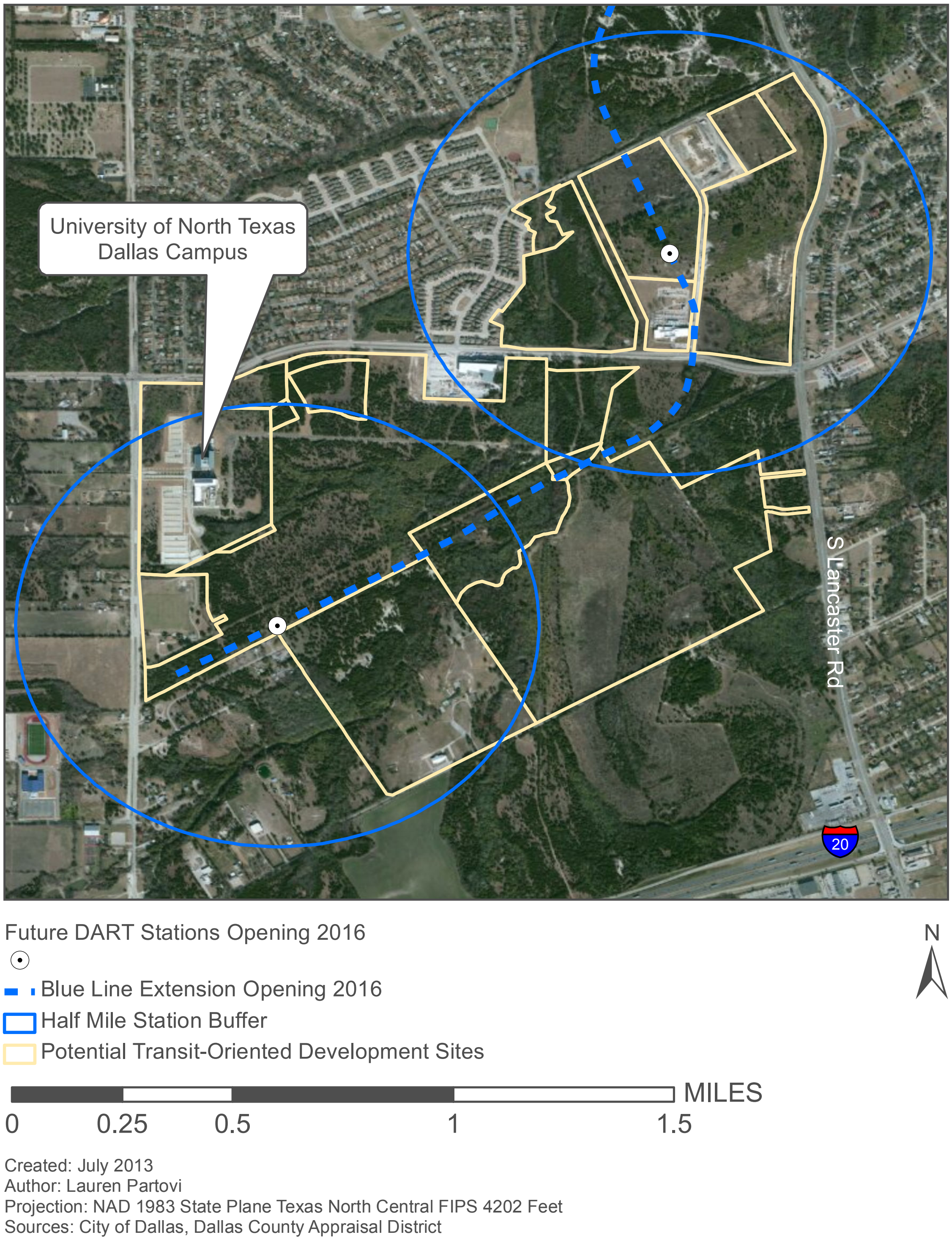
It would be helpful for the city of Dallas, using the type of mapping analysis performed in Figure 3.3, to identify parcels in these highest opportunity areas where median household income is higher than the county and TOD-friendly zoning falls within recognized school attendance zones. Determining priority areas for LIHTC-eligible mixed-income TOD in north Dallas, as done in Figure 3.3, would help the City proactively encourage neighborhood support and potentially partner with a developer to further the effort of getting projects in more desirable, higher opportunity areas. Because the Inclusive Communities Project lawsuit referenced in Chapter Three was specifically targeted at LIHTC distribution in Dallas, the City of Dallas would be wise to address some of its tax credit housing issues on the local rather than state level.

Looking at Figure 3.3 and the state of TOD in Dallas as it stands currently, the City has invested in the Lake Highlands Town Center at Lake Highlands Station using

TIF dollars and CDBG funds, so when that development opens its first units in 2014, it will include a 20% set-aside of affordable units for fifteen years (S. Hounsel, personal communication, July 27, 2013). The three other station areas identified in Figure 3.3 are park-and-ride stations and each has TOD opportunities on adjacent land. Currently, those three northern stations identified have no development oriented to the rail stop itself (aerials of the land in Appendix D-F).

Jerry Killingsworth with the City believes the next big opportunity for mixed-income TOD is development around University of North Texas at Dallas campus located at the southern edge of Dallas and the future end of the DART Blue Line (see Appendix B: Current & Future Services DART Rail System Map). The UNT campus is up to 4,000 students and there are over 200 acres of vacant land for new development surrounding the school and future DART stations (identified in Figure 4.8). UNT hopes to have 15,000 students at the campus by 2025, which will be served by DART rail starting 2016. The vacant land, shown in Figure 4.8, presents an opportunity for new development to start completely from scratch. However, the present density of the area is a serious development concern, and so the kind of large-scale development that is physically possible at the site is several years out.

Figure 4.8: University of North Texas – Dallas Future Station Area



The map in Figure 4.8 shows the existing UNT Dallas campus with large adjacent tracts of vacant land. That land is owned by four different entities, the City of Dallas, the State of Texas, the University of North Texas, and Providence Bank, which likely holds the land in foreclosure. These landowners are reasonable potential partners for new, mixed-income TOD that encourages traffic in the area and enrollment at UNT Dallas. With the opening of the Blue Line extension in 2016 and close proximity of these two final stations on the line, there is great potential for the development of a transit hub here at the terminus of the line and edge of Dallas city limits.

An Eye on Policy & Implementation

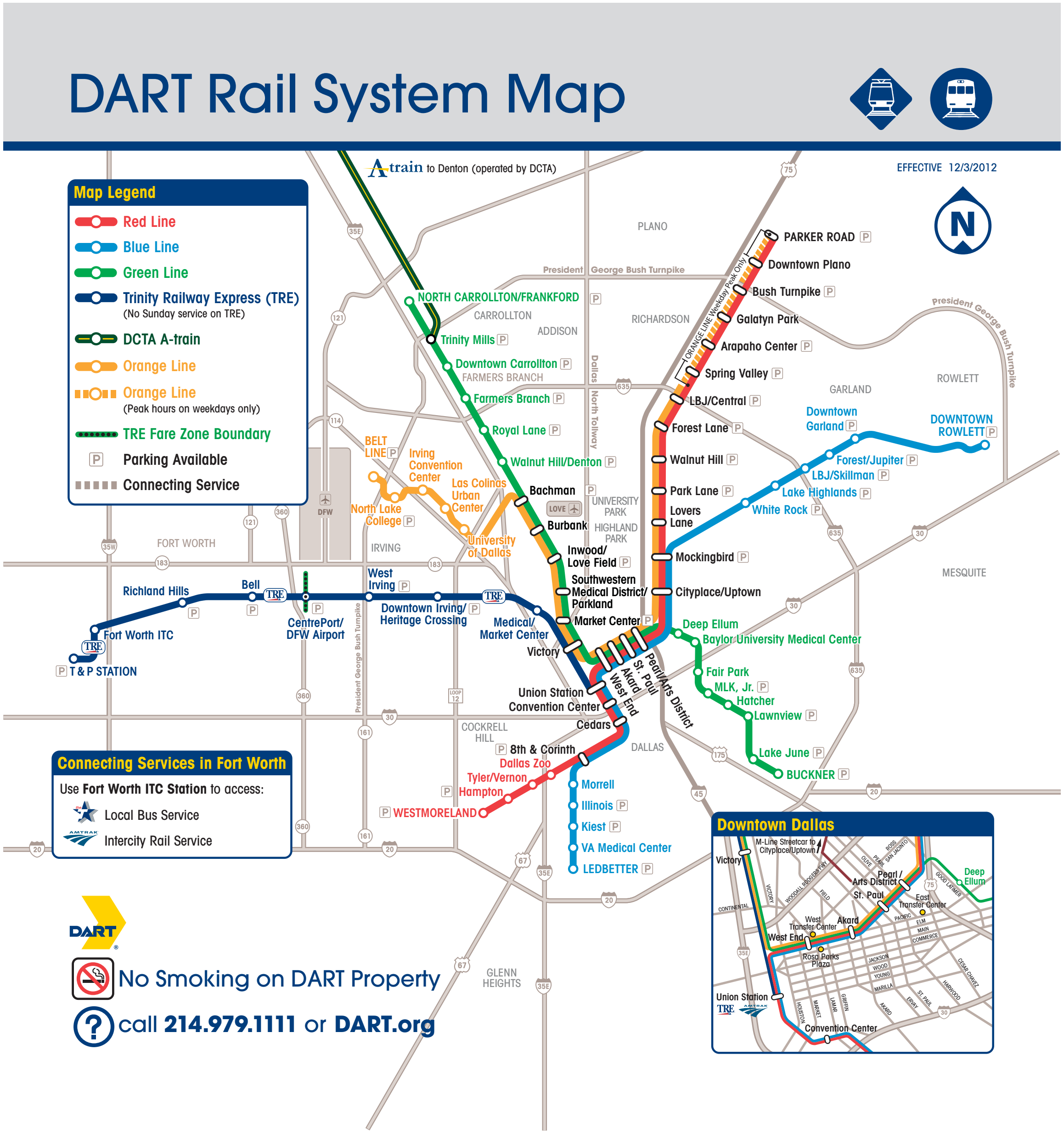
While New Market and Low Income tax credits, TIF funds, block grants, and general obligation bond money bring needed resources to the financing of affordable housing, public-sector subsidy alone is not sufficient for the development of affording housing that includes units for low income residents. Projects that include residents with the lowest levels of income require gap financing above and beyond the capacity of City subsidy (J. Killingsworth, personal communication, July 23, 2013). Killingsworth says it has been Dallas's experience that it takes more money to do a TOD in an economically depressed area, "there is a big price that every city pays for the neglect and expansion of our low income areas. You pay that price so many ways, cost of TOD, crime, and it goes on and on" (personal communication, July 23, 2013). Assembling layered, "creative" financing from federal, state, local, and private sources is time consuming and inefficient. The challenges associated with affordable housing development pose significant opportunity cost of time for skilled developers who have the capacity to assemble an affordable deal, or a market rate deal that would produce greater returns on their time investment. Development of affordable TOD shouldn't fall to the moral imperative a specific developer may feel; the City would get better projects built if they took a more assertive role in pairing development groups with specific sites and specific funding mechanisms.

Public redevelopment agencies, like the California examples discussed in Chapter Three, have used the power of eminent domain and their capacity to write down initial site costs in order to help private projects pencil out (Dunphy, 2007, p. 141). The legislative environment in Texas does not allow such use of eminent domain, unless the land goes directly to public use as infrastructure for a public road or facility. In instances this government tool can be used for land that serves a TOD, but is not legally part of the new TOD development, Dallas should think creatively about using that power for the specific benefit of low income and very low-income households.

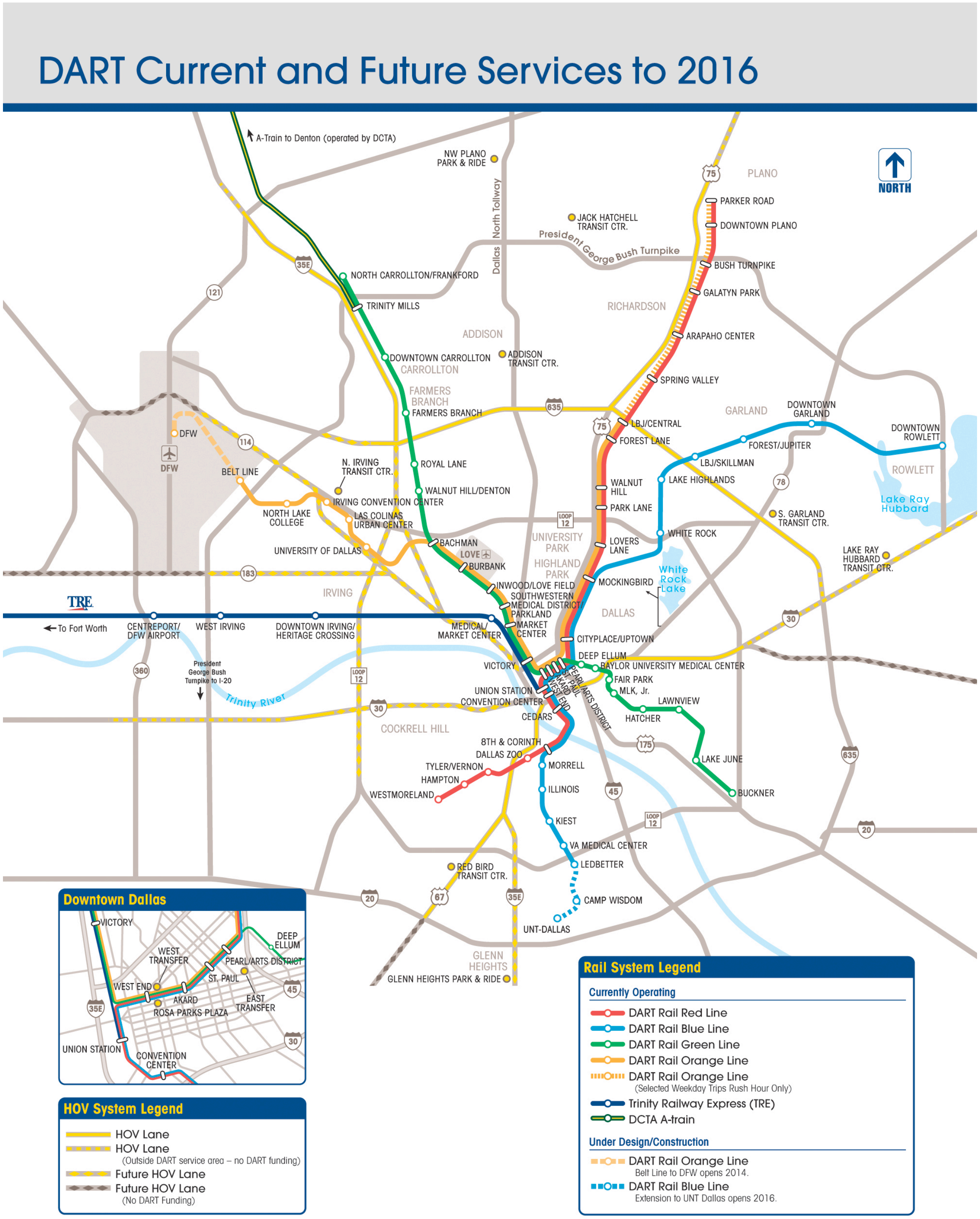
According to *Developing Around Transit: Strategies and Solutions That Work*, at least eight state governors have proactively championed policies, funding, or legislative initiatives for transit-oriented development (Dunphy, 2007, p. 28). With Rick Perry announcing the end of his governorship in 2014, the field is wide open for a candidate that is more likely to support the subsidy required to help champion affordable housing colocated with affordable transit here in Texas. Policy measures that could be welcomed in our traditionally conservative state might include promoting housing affordability at TODs by reducing or waiving impact fees and limiting things like park or roadway impact fees. Another could include requiring Texas transit agencies to set designated periods for affordable housing provision in mixed-used projects entering a ground lease around a station. Dallasites love their cars, but to stay competitive as one of the nation's best cities for economic opportunity, new solutions for financing and developing mixed-income TOD must be championed.

Appendix

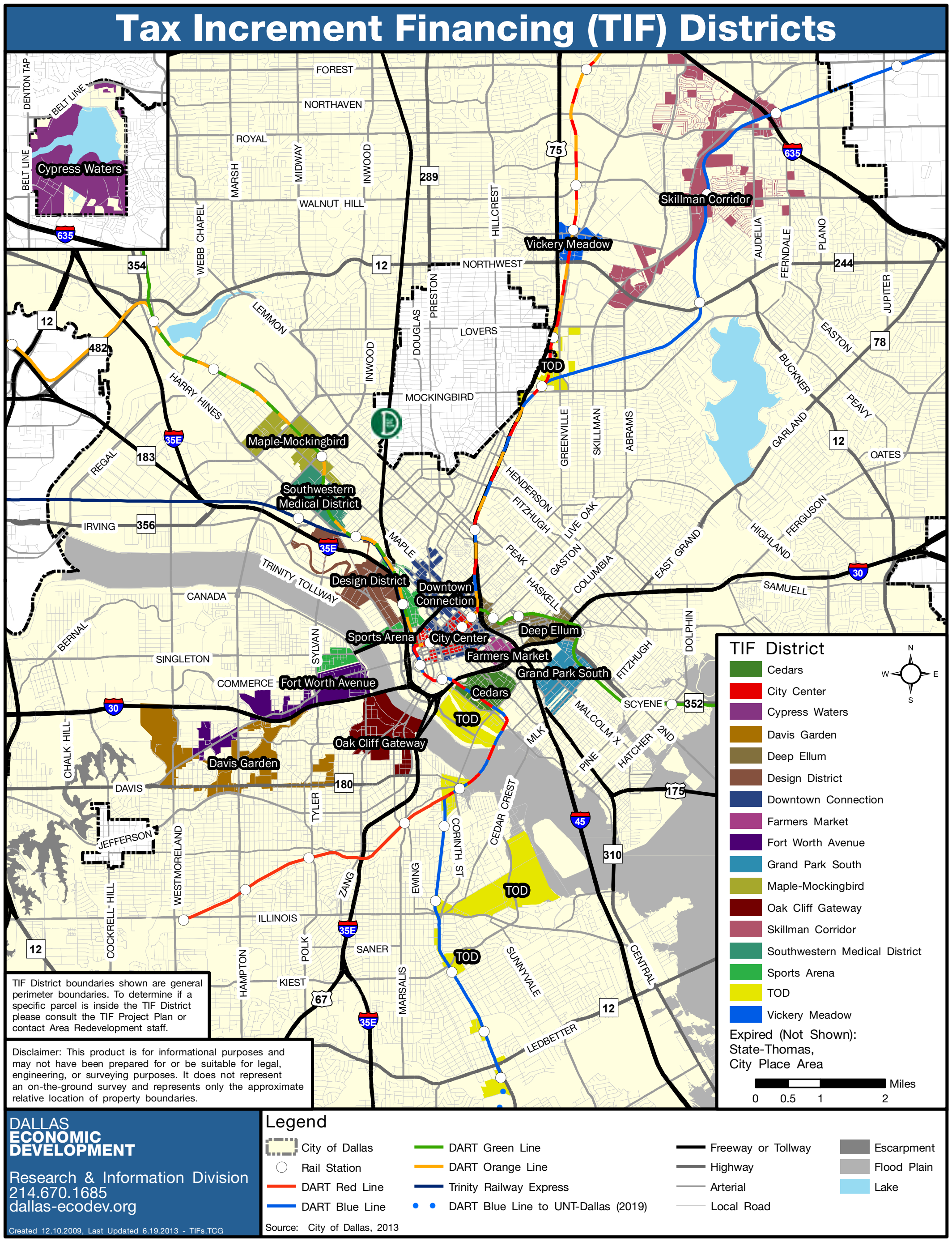
Appendix A: Current DART Rail System Map



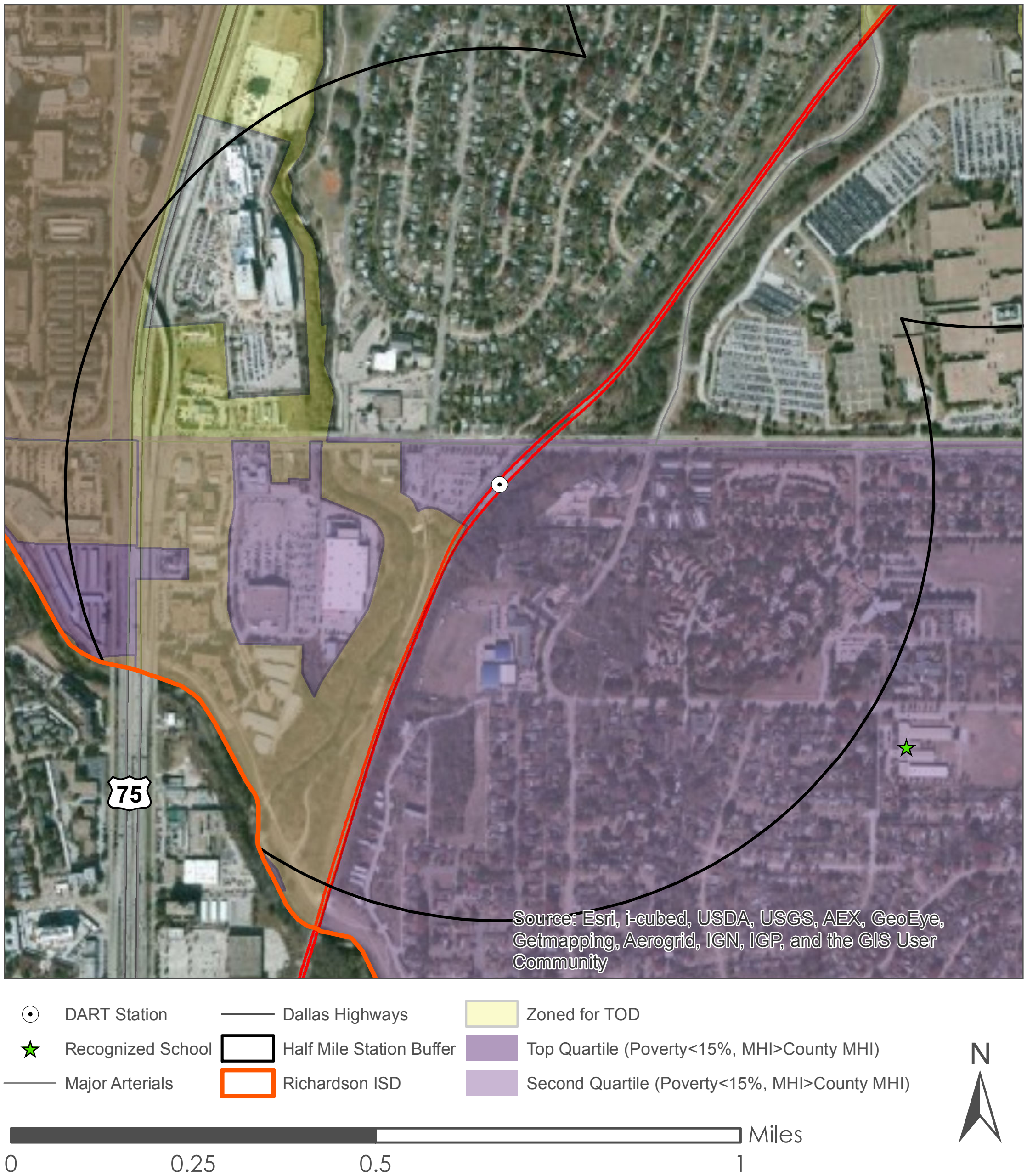
Appendix B: Current & Future Services DART Rail System Map



Appendix C: City of Dallas TIF Map

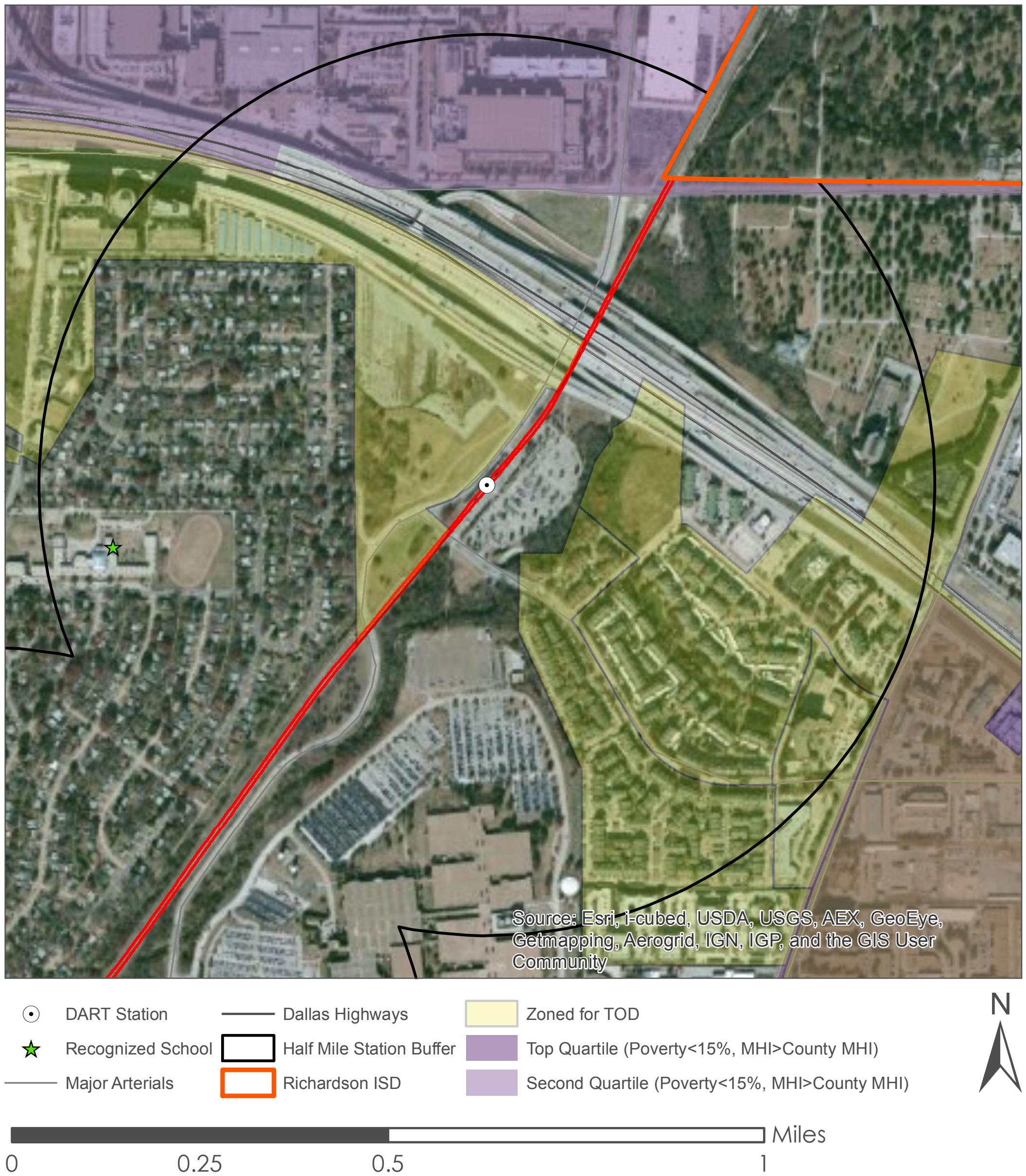


Appendix D: Forest Lane DART Red Line Station Area



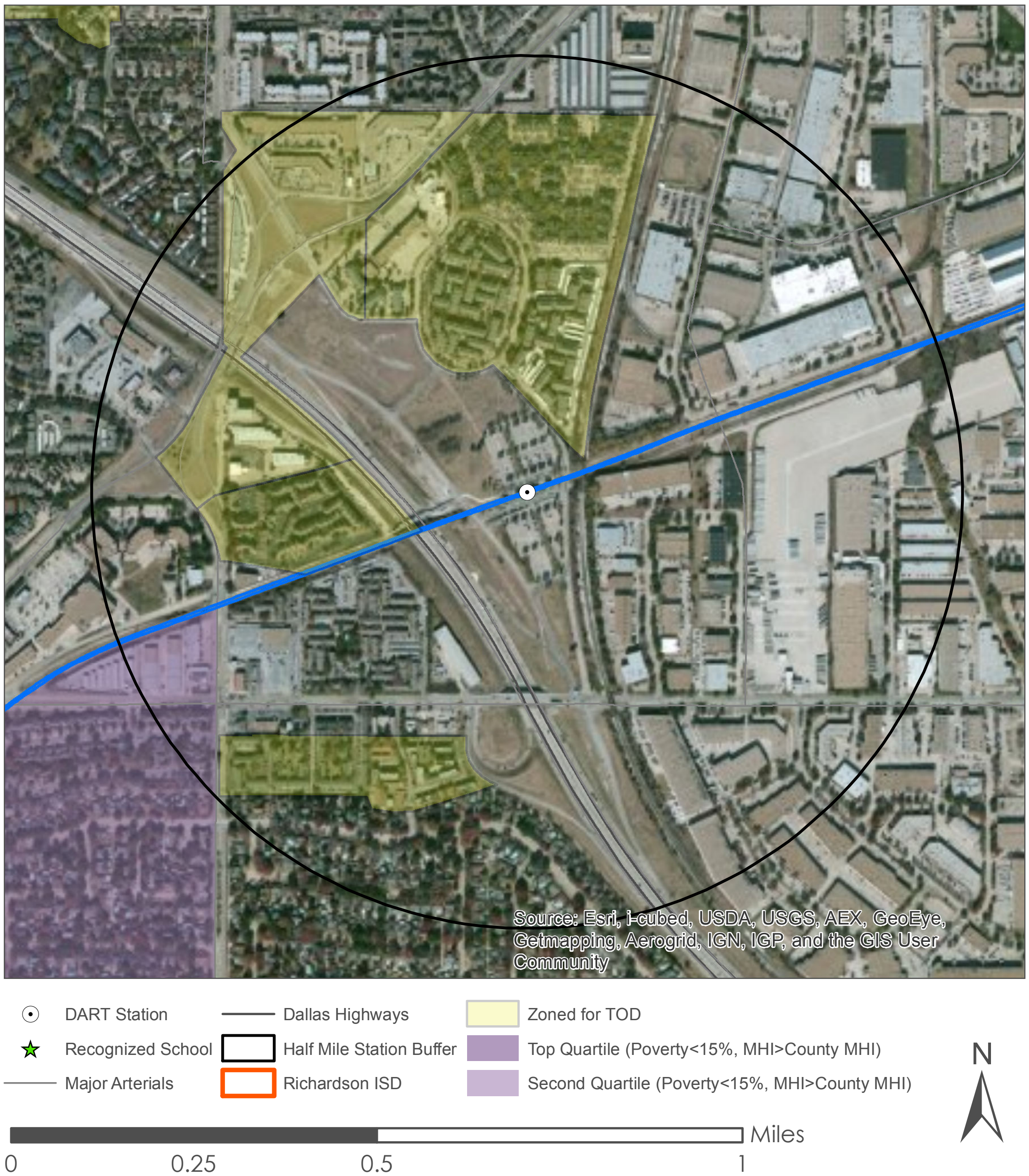
Created: July 2013
Author: Lauren Partovi
Projection: NAD 1983 State Plane Texas North Central FIPS 4202 Feet
Sources: City of Dallas, Tigerline, TDHCA, Texas Education Agency

Appendix E: LBJ/Central DART Red Line Station Area



Created: July 2013
Author: Lauren Partovi
Projection: NAD 1983 State Plane Texas North Central FIPS 4202 Feet
Sources: City of Dallas, Tigerline, TDHCA, Texas Education Agency

Appendix F: LBJ/Skillman DART Blue Line Station Area



Created: July 2013
Author: Lauren Partovi
Projection: NAD 1983 State Plane Texas North Central FIPS 4202 Feet
Sources: City of Dallas, Tigerline, TDHCA, Texas Education Agency

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Vita

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This report was typed by the author.